# OVERSIGHT ON THE VA HOME LOAN GUARANTY PROGRAM AND H.R. 1516

---

## HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS

OF THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

APRIL 18, 1985

Printed for the use of the Committee on Veterans' Affairs

**Ser. No. 99-12**

U.S. GOVERNMENT PRINTING OFFICE
48-517 O WASHINGTON : 1985

H764-25

## COMMITTEE ON VETERANS' AFFAIRS

G.V. (SONNY) MONTGOMERY, Mississippi, *Chairman*

DON EDWARDS, California
BOB EDGAR, Pennsylvania
SAM B. HALL, Jr., Texas
DOUGLAS APPLEGATE, Ohio
RICHARD C. SHELBY, Alabama
DAN MICA, Florida
THOMAS A. DASCHLE, South Dakota
WAYNE DOWDY, Mississippi
LANE EVANS, Illinois
MARCY KAPTUR, Ohio
ALAN B. MOLLOHAN, West Virginia
TIMOTHY J. PENNY, Minnesota
HARLEY O. STAGGERS, Jr., West Virginia
J. ROY ROWLAND, Georgia
JOHN BRYANT, Texas
JAMES J. FLORIO, New Jersey
KENNETH J. GRAY, Illinois
PAUL E. KANJORSKI, Pennsylvania
TOMMY F. ROBINSON, Arkansas

JOHN PAUL HAMMERSCHMIDT, Arkansas
CHALMERS P. WYLIE, Ohio
ELWOOD HILLIS, Indiana
GERALD B.H. SOLOMON, New York
BOB McEWEN, Ohio
CHRISTOPHER H. SMITH, New Jersey
DAN BURTON, Indiana
DON SUNDQUIST, Tennessee
MICHAEL BILIRAKIS, Florida
NANCY LEE JOHNSON, Connecticut
GUY V. MOLINARI, New York
THOMAS J. RIDGE, Pennsylvania
WILLIAM M. HENDON, North Carolina
JOHN G. ROWLAND, Connecticut

Mack Fleming, *Chief Counsel and Staff Director*

---

### Subcommittee on Housing and Memorial Affairs

RICHARD C. SHELBY, Alabama, *Chairman*

BOB EDGAR, Pennsylvania
DOUGLAS APPLEGATE, Ohio
ALAN B. MOLLOHAN, West Virginia
JOHN BRYANT, Texas
JAMES J. FLORIO, New Jersey

CHRISTOPHER H. SMITH, New Jersey
DON SUNDQUIST, Tennessee
MICHAEL BILIRAKIS, Florida
JOHN G. ROWLAND, Connecticut

# CONTENTS

APRIL 18, 1985

Page

Oversight on the VA Home Loan Guaranty Program and H.R. 1516 .......... 1

OPENING STATEMENTS

Chairman Shelby .......... 1
Hon. Christopher H. Smith .......... 2

WITNESSES

Brodie, Raymond L., Assistant Director for Loan Management Veterans' Administration .......... 7
Cullinan, Dennis M., special assistant, National Legislative Service, Veterans of Foreign Wars of the United States .......... 28
  Prepared statement of Mr. Cullinan .......... 109
Edmiston, Stephen L., deputy national legislative director, Disabled American Veterans .......... 30
  Prepared statement of Mr. Edmiston .......... 123
Egan, Paul S., deputy director, National Legislative Commission, the American Legion, accompanied by Joseph F. Miller, assistant director .......... 26
  Prepared statement of Mr. Egan .......... 92
Moran, Bob, associate legislative director, Paralyzed Veterans of America .......... 31
  Prepared statement of Mr. Moran .......... 133
O'Toole, Robert M., Director Loan Guaranty Service, Veterans' Administration, accomanied by James P. Kane, assistant general council .......... 7
  Prepared statement of Mr. O'Toole .......... 43
Passamaneck, David J., Lt. Col. U.S.A. (Ret.), national legislative director, AMVETS .......... 29
  Prepared statement of Lieutenant Colonel Passamaneck .......... 119
Schiffer, Stuart E., Deputy Assistant Attorney General, Civil Division .......... 3
  Prepared statement of Mr. Schiffer .......... 39
Spiller, Robert J., president, Mortgage Bankers Association of America, accompanied by Burton C. Wood, legislative council and William E. Cumberland, general counsel .......... 19
  Prepared statement of Mr. Spiller .......... 57
Stabile, Jennie, Chair, FHA/VA Monitoring Network, appearing on behalf of the National Association of Realtors .......... 20
  Prepared statement of Mrs. Stabile .......... 83
Weidman, Richard F., director of government relations, Vietnam Veterans of America .......... 32
  Prepared statement of Mr. Weidman .......... 139

MATERIAL SUBMITTED FOR THE RECORD

Bill: H.R. 1516—To amend title 38, United States Code, to remove an inequity in the Veterans' Administration program to provide assistance to certain disabled veterans in acquiring specially adapted residences .......... 37
Written committee questions and their responses:
  Chairman Shelby to VA .......... 144
  Hon. Christopher H. Smith to VA .......... 146

# OVERSIGHT ON THE VA HOME LOAN GUARANTY PROGRAM AND H.R. 1516

---

THURSDAY, APRIL 18, 1985

House of Representatives,
Subcommittee on Housing and Memorial Affairs,
Committee on Veterans' Affairs,
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 334, Cannon House Office Building, Hon. Richard C. Shelby (chairman of the subcommittee) presiding.

Present: Representatives Shelby, Smith of New Jersey, Sundquist, Bilirakis, Molinari, and Rowland of Connecticut.

## OPENING STATEMENT OF CHAIRMAN SHELBY

Mr. Shelby. The subcommittee will come to order. We will try to move on as fast as possible as we have a number of witnesses.

I would first like to say that we meet today to consider H.R. 1516, a bill to authorize certain disabled veterans to acquire a suitable housing unit with specially adapted modifications already in place.

Section 801(b) of title 38 of the United States Code provides up to a maximum of $6,000 to certain service-connected disabled veterans who have suffered blindness in both eyes or the anatomical loss or loss of use of both hands to make necessary adaptations to their homes. However, unlike service-connected veterans who are eligible for the $35,500 "wheelchair" specially adapted housing assistance grant, those eligible for the $6,000 grant cannot use it to acquire a suitable home which already has the necessary adaptations. The bill corrects this discrepancy and treats both categories of disabled veterans equally. Since this bill does not create any new eligibility for the grant and is only a technical amendment, there should be no cost involved.

We will also today be examining the VA Home Loan Program in an oversight capacity with particular emphasis on the implementation of Public Law 98-369, the Deficit Reduction Act of 1984, which was enacted for the purpose of reducing loan guaranty default costs to the Government.

This law codified VA practices on defaulted VA guaranteed loans by requiring the Veterans' Administration to acquire foreclosed properties only in those cases when this would be less expensive than paying the guaranty. Public Law 98-369 also increased the user fee from one-half to 1 percent.

Section 1830 of title 38, which was added by that act, requires the Administrator of the Veterans' Administration, within 180 days after the date of its enactment, to take appropriate steps to authorize VA attorneys to exercise the right of the United States to bring suit to foreclose loans. It also provides the Administrator with authority, subject to the concurrence of the Attorney General, to acquire the services of non-VA attorneys to bring such suits. We will be hearing how this is working from both the Veterans' Administration and the Department of Justice.

At the present time, approximately $492 million in defaulted home loans are outstanding. In that connection, we invited the Honorable David A. Stockman, Director of OMB, to testify on OMB's debt collection role as it pertains to the VA loan guaranty program.

OMB has advised us that Mr. Stockman is unable to be with us today, but that he may be available in May. You may be assured that we will contact him again. We plan to actively pursue the debt collection issue with OMB.

Our first witness this morning is Mr. Stuart Schiffer, Deputy Assistant Attorney General, Department of Justice. But before we get into this, I want to first recognize the ranking member of the committee, the gentleman from New Jersey, Mr. Smith.

### OPENING STATEMENT OF HON. CHRISTOPHER H. SMITH

Mr. **Smith** of New Jersey. Thank you, Mr. Chairman.

I would first like to thank the Chairman for calling this important hearing to discuss the operation of the VA housing program.

Since the VA Home Loan Program began, more than 11 million veterans have benefited from its provisions. It is a program that has been attractive to both buyers and sellers, providing our Nation's veterans with a chance to buy a home with a minimum cash investment. Mortgage lenders have also found these veterans loans to be sound investments. Indeed, more than $200 billion of investments has been infused into our economy since the program began.

Although no one would discount the benefits of the home loan program, Mr. Chairman, in recent years the rate of loan guaranty defaults has increased, a problem which we will examine closely this morning. I would note that the American Legion has submitted a detailed proposal to modify the home loan program in an effort to address this and other perceived weaknesses in the program. I commend the Legion for its leadership on this issue and I appreciate the hard work that has gone into this proposal and can assure them it will receive our very careful review.

I am pleased that we will also be discussing recent changes in the law allowing the Federal Government to bring suit to foreclose loans. The new law provided that suit may be brought by VA attorneys or on a fee basis. I look forward to the testimony of both the Department of Justice and the Veterans' Administration as to how this program has been working.

Finally, Mr. Chairman, we will be receiving testimony regarding H.R. 1516, which will allow seriously disabled service-connected veterans who qualify for the $6,000 grant to use the money to acquire a home that has already been adapted with special features.

As an original sponsor of this legislation, I strongly support its passage.

Again, Mr. Chairman, thank you for calling this hearing, and I, too, look forward to the statements of the witnesses.

Mr. SHELBY. The Chair recognizes the gentleman from Connecticut.

Mr. ROWLAND of Connecticut. Thank you, Mr. Chairman. I would like also to thank you for having this hearing and I am looking forward to listening to the many witnesses that we have here today on this very, very important issue. I am looking forward to the continued response that we get on this issue and many of the other issues that will be facing the subcommittee.

Mr. SHELBY. Are you ready, sir?

Mr. SCHIFFER. Yes, Mr. Chairman.

Mr. SHELBY. Any written testimony that you may have submitted to us will be made part of the record in its totality, without objection. If you just want to take 5 minutes to sum up your remarks, that will give us time for questions.

## STATEMENT OF STUART E. SCHIFFER, DEPUTY ASSISTANT ATTORNEY GENERAL, CIVIL DIVISION

Mr. SCHIFFER. Mr. Chairman, I shall submit my written statement for the record and, in view of your schedule this morning, I will offer only a very brief summary.

I can best summarize our views simply by assuring the chairman that we share fully the commitment of Congress and this committee to ensure the integrity of Government lending programs in general and specifically VA lending programs, as well as to ensure the protection of the Federal Treasury.

Recent years have seen a very marked increase in the priority afforded by the Government to debt collection in general and, again, specifically to VA programs. Again, I assure you that this increased priority will continue.

With respect to section 1830, which is the subject of this morning's testimony, I am pleased that we now have very firmly in place foundations that will enable us to work closely with the VA to see that the purpose of this recent legislation is achieved.

As the chairman is aware, section 1830 provides essentially two levels of authority to the VA and the Department of Justice. First, it directs the use of Government attorneys employed by the VA in foreclosure litigation. Second, it provides discretionary authority for the use of private counsel. We now have in place a memorandum of understanding, copies of which I will make available, that will permit the full use of VA-employed attorneys in these cases. We have had training programs that were designed to ensure that the VA attorneys will be capable of fully handling this litigation and we are prepared to move forward with this program.

Again with the goal of achieving fully the purpose of the statute, we will monitor promptly and closely the results of the program, and if the use of the joint resources of the two agencies in any way proves insufficient to eliminate backlogs, I can assure the committee that we will fully and promptly consider the need for the use of private counsel on a pilot basis.

I appreciate the opportunity to be here this morning and I will be pleased to answer any questions you might have.

[The statement of Stuart Schiffer appears at p. 39.]

Mr. **Shelby**. In our basic oversight work on this committee we have learned that in some areas of the country it is taking literally years for the Justice Department to foreclose on property where the loans are in default. As you know, this is a real problem for us and the Veteran's Administration. When it takes that long to foreclose properties, people are living in those houses free. There are no payments being made, and the property is basically wasting away.

I realize that the workload pattern varies greatly from State to State and from community to community, but when several years go by without a defaulted loan being taken care of—and we have been told this is happening—the costs that the Government incurs each month is devastating. This usually ends up with a larger than necessary debt to the Government as well as a deficiency against the veteran, too. We have an obligation and the Department of Justice has an obligation to expedite things—I know you're overworked in some areas—but things must be done in a timely manner.

What is the real problem with the Justice Department, the U.S. Attorney's Office and so forth around the country regarding this? Why can't you expedite it?

Mr. **Schiffer**. First I would assure the chairman that I don't believe that such delays are the norm. I equally agree, however, that where they do exist, they shouldn't be permitted to continue.

These delays are not always the result of workloads that can't be handled by U.S. attorneys. In some cases court congestion is a problem. That is one of the features in the memorandum of understanding that I am pleased we were able to incorporate. The idea in the memorandum of understanding is to give maximum flexibility to local U.S. Attorneys and local VA counsel, so that if in a particular State, Federal district courts have substantial congestion on their civil docket, we will now be able to use State courts for such litigation.

I can simply assure the chairman that we equally are concerned with such delays. I don't think they exist on a nationwide basis, but where they do exist, we are going to deal with them.

Mr. **Shelby**. You're dealing in millions of dollars in properties, as you well know.

Mr. **Schiffer**. I do, indeed.

Mr. **Shelby**. It is my understanding that the memorandum of understanding that you just referred to was signed by the Department of Justice and the VA only this week; is that right?

Mr. **Schiffer**. That's correct, Mr. Chairman.

Mr. **Shelby**. How soon will the provisions be implemented, if you have any judgment in that regard?

Mr. **Schiffer**. It is my hope that they will be implemented immediately.

I should stress that the memorandum of understanding does not, in itself, permit us to go forward. We have been able in the past to go forward with these cases, and we have also been able to make use of VA attorneys. I think the memorandum is only designed to regularize those procedures.

Mr. **Shelby**. You state that the memo of understanding does not include the use of fee attorneys in those cases where the property involved is a long distance from the nearest VA-employed attorney's office, but that you are studying the issue, and would perhaps authorize a pilot program in a few judicial districts to see how it would work.

Mr. **Schiffer**. That's correct.

Mr. **Shelby**. When do you think this pilot program, if you do it, will come forth?

Mr. **Schiffer**. As I said, we envision the statute as essentially providing two steps. It is our hope, indeed, that the joint resources of our agencies are going to make a real difference. But if they don't, we are aware of the mandate of Congress and this committee and we will go to such a program.

Mr. **Shelby**. What is the problem in the use of fee attorneys? If you could get them to bid on something in the marketplace and keep the price down, with some guidance or criteria from the Justice Department on the foreclosure, wouldn't it save money, or would it depend on the locality?

Mr. **Schiffer**. I think it would very much depend. I certainly can't argue with the proposition that if property is not being foreclosed upon, if losses are mounting, then almost any program other than simple delay is cost-effective. But if our procedures are working as they should be and Government counsel are doing their jobs, then I think we have a much more cost-effective operation than through fee counsel.

Mr. **Shelby**. But if the Justice Department laid out the basic criteria for foreclosure for private attorneys—assuming they could do it in a more expeditious way because they don't have the basic workload that a U.S. attorney has—you wouldn't have basic inconsistent positions. If you're foreclosing by advertising or if you're foreclosing by litigation, it would still be basic, would it not? Couldn't you overcome any inconsistent positions if you set the rules?

Mr. **Schiffer**. We would certainly attempt to overcome such problems. Whether we would succeed is something that would have to await such a pilot project.

Mr. **Shelby**. Along these lines, are you familiar with what goes on in the State of Hawaii as far as VA-foreclosed loans are concerned?

Mr. **Schiffer**. No, Mr. Chairman, I am not.

Mr. **Shelby**. I have been concerned with this, and some of the other people on the committee are concerned. It is my understanding that the fees are about $2,000, or maybe a little bit more, to foreclose a VA-guaranteed loan in the State of Hawaii. In the other 49 States I believe it's an average of about $350, a big inconsistency. I was wondering if in Hawaii, because of peculiar circumstances, if this wouldn't be a situation where Justice ought to take over the foreclosure rather than private attorneys. Do you have information on that?

Mr. **Schiffer**. I don't, but that is something we will certainly look into.

Mr. Shelby. We will communicate with you on that.

Do you have any other reasons today, other than your fear of inconsistent positions—which it looks to me like could be cured by setting the criteria for fee attorneys—why Justice would oppose fee attorneys if they could do a more expeditious job at a lower price?

Mr. Schiffer. First we have some doubt about whether or not a more effective job can be done at a lower price——

Mr. Shelby. Well, that is a concern of ours, too. We don't know.

Mr. Schiffer. As I have stressed, we equally recognize that if cases are not being prosecuted in a timely fashion, then it is difficult to argue about cost effectiveness.

The whole notion of centralized litigating authority is something that has been very firmly built into the statutes and, indeed, may have constitutional dimensions. It is those types of concerns—that the Attorney General be able to remain in a position to discharge his statutory—in fact, his constitutional—obligations—that do lead us to what to see if we can cure the problems with existing resources. But I again stress that we are not going to keep coming back to the committee with this problem. If the problem exists, we will deal with it through a pilot program with private counsel.

Mr. Shelby. Thank you.

The Chair recognizes the gentleman from New Jersey, Mr. Smith.

Mr. Smith of New Jersey. Thank you, Mr. Chairman.

Mr. Schiffer, as you well know, the VA has used fee attorneys for many years on foreclosures, at least until the early sixties. Have you researched the use of such attorneys with respect to problems such as inconsistent litigation positions, appeals cases, or resolution of disputes, and if so, could you discuss some of your research with this committee?

Mr. Schiffer. I have not, Congressman Smith. I think, very frankly, until this legislation was enacted, there was some question as to the statutory basis for the use of such attorneys. But I simply do not have knowledge of the program about which you have inquired.

Mr. Smith of New Jersey. OK. The chairman, I think, asked many of the questions that many of us perhaps on this committee would have asked, and we appreciate your answers.

I do have one final question, and really a comment. I want to commend the Department of Justice and the VA for their memorandum of understanding with respect to foreclosure activities. I also want to commend you for being at least willing to consider the fee attorney issue.

With regard to the pilot program—and I know you indicated to the chairman that this would be moving ahead expeditiously and immediately—is there any timetable for its implementation?

Mr. Schiffer. I think, since we are simply beginning right now to use the joint resources of the agencies, we are going to at least want to take a look at how that is working before we know if we have an ongoing problem.

Mr. Smith of New Jersey. But no prognosis or thought as to when——

Mr. **Schiffer**. I have offered too many timetables to judges and to Congressmen to want to offer one now, other than assuring you that this is not a problem we are going to permit to continue.

Mr. **Smith** of New Jersey. OK. Thank you.

Mr. **Shelby**. The Chair recognizes the gentleman from Tennessee, Mr. Sundquist.

Mr. **Sundquist**. I have no questions, Mr. Chairman.

Mr. **Shelby**. The gentleman from Connecticut?

Mr. **Rowland** of Connecticut. No questions.

Mr. **Shelby**. Thank you.

We appreciate your coming up this morning. We are going to submit some information to Justice regarding what I think are exorbitant fees which the VA is paying in Hawaii for foreclosures to see if you have any suggestions on how to cure that.

Mr. **Schiffer**. We will be happy to look into that.

Mr. **Shelby**. Thank you.

Mr. **Schiffer**. Thank you for permitting me to appear this morning.

Mr. **Shelby**. Our next panel will be Mr. Robert M. O'Toole, Director, Loan Guaranty Service, Veterans' Administration. He will be accompanied by Mr. James Kane, Assistant General Counsel, Mr. Raymond Brodie, Assistant Director, Loan Management, and Mr. Thomas Maher, Assistant Director, Property Management.

Mr. O'Toole, you're no stranger to the subcommittee. We appreciate your coming. Your written testimony, will be submitted for the record in its totality, without objection. If you will sum up your remarks, this will give us an opportunity to question you.

## STATEMENT OF ROBERT M. O'TOOLE, DIRECTOR, LOAN GUARANTY SERVICE, VETERANS' ADMINISTRATION, ACCOMPANIED BY JAMES P. KANE, ASSISTANT GENERAL COUNSEL; RAYMOND L. BRODIE, ASSISTANT DIRECTOR FOR LOAN MANAGEMENT; AND THOMAS MAHER, ASSISTANT DIRECTOR FOR PROPERTY MANAGEMENT

Mr. **O'Toole**. Mr. Chairman and members of the subcommittee, as usual, it is a pleasure to appear before you this morning to discuss the operation of the Veterans' Administration's housing program. I have with me today Jim Kane, the Assistant General Counsel; Ray Brodie, our Assistant Director for Loan Management; and Tom Maher, Assistant Director for Property Management.

Recent major changes in the loan guaranty program were made by the enactment of Public Law 98-369, the Deficit Reduction Act of 1984.

Under the new legislation the VA is required to examine the "net value" of the security as a potential asset. The net value is determined by subtracting the estimated costs of acquiring, managing, repairing, and reselling the property from its fair market value. If net value exceeds the total indebtedness less the maximum amount which VA would have to pay on the guaranty, the VA will acquire the property for resale so as to recover that value and reduce the loss to the Government.

If net value does not exceed the difference between total indebtedness and the amount payable under the guaranty, the VA will pay the guaranty claim and allow the holder to dispose of the property. Field stations are processing foreclosures in conformance with the new formulas and the legislation has reduced the number of properties conveyed to the VA and the expenses associated with management and resale.

In fiscal year 1983 specified amounts were established for 96.8 percent of the VA guaranteed loans that were foreclosed. In fiscal year 1984, this figure was 93.6 percent, and for the first quarter of fiscal year 1985, this figure was 90.6 percent. The decline is directly attributable to the implementation of the property acquisition guidelines called for in the law.

Another modification in the loan guaranty program has resulted from the newly enacted section 1830 of title 38. This law authorizes the VA to bring suit in court to foreclose loans made or acquired by the Administrator. This law provides that this may be done by VA attorneys or by fee basis attorneys.

The statute further provides that VA may use fee attorneys only with the concurrence of the Attorney General. A memorandum of understanding has been signed by the Department of Justice and the VA and we will begin using VA attorneys for foreclosures in the near future.

Mr. Chairman, you requested the VA's views on H.R. 1516. Currently, the grant authorized by section 801(b) is based upon the actual cost of adaptation. No adaptations could be made in the case of homes which already have the required features. The proposed amendment would authorize the Administrator to provide assistance to veterans with certain disabilities who are acquiring a residence already adapted with the necessary special features.

We would recommend that the bill be amended to provide that in the case of a veteran acquiring a residence already adapted with the special features, that the new grant be based upon the fair market value of the adaptations. With this amendment, the VA favors enactment of H.R. 1516.

We have implemented two provisions of the Deficit Reduction Act of 1984 that impact on our property management program. One is the requirement that the VA charge a 1-percent funding fee on vendee loans, and secondly, the requirement that at least 25 percent of our properties be sold for cash during fiscal years 1985, 1986 and 1987.

During the fiscal year we have continued to increase the percentage of cash sales. Our percentage fiscal year to date is 21.46 percent. We are confident that we will be able to meet and probably exceed the 25 percent cash sale requirement.

We have also taken several steps to promote sales which are outlined in my written statement, Mr. Chairman. Continued emphasis on these program changes should help us to accelerate the downward trend in our inventory during 1985.

Mr. Chairman, this concludes my summary. I will be pleased to respond to any questions which you or the other members of the subcommittee may have.

[The statement of Mr. O'Toole appears on p. 43.]

Mr. SHELBY. Mr. O'Toole, regarding the memorandum of understanding insofar as the processing of foreclosed properties, we understand it has been signed by the Department of Justice and the

VA this week. Why did it take so long? You know, Public Law 98-369 was signed into law last July. Do you think this memo would have been signed this week if we hadn't scheduled this hearing in this room today, or would you rather not comment?

Mr. O'TOOLE. Mr. Chairman, I'm going to let my friendly attorney from the General Counsel's Office, Mr. Kane, respond to that, if that is acceptable.

Mr. SHELBY. Mr. Kane.

Mr. KANE. Mr. Chairman, immediately after the passage of this act we sent a letter to all our field stations asking them for certain information, to give us the necessary background to draw up a memorandum of understanding. In August we met with personnel from the Department of Justice and agreed in principle what would be in the memo of understanding. The next day we sent it to them for their revision and comments.

When we drafted it we included a blanket authority to use fee attorneys, where we thought appropriate. That has been the hold up, whether or not we would have authority to use fee attorneys. When it came back to us in October, they had deleted that provision and that is what we have been negotiating since.

Of course, in the meantime we have had a training conference and they have cooperated and provided speakers to us for that conference. But the issue of fee attorneys has been the hold up.

Mr. SHELBY. A few weeks ago this subcommittee held a field hearing in Florida. We were advised at that time that since the memo of understanding that would permit VA attorneys to foreclose properties had not been signed, it was taking 5 years for the Justice Department to foreclose on a piece of property in the Miami, FL, area. Obviously, as I have said earlier, this ends up costing the taxpayers, the Federal Government, a lot of additional money, not to mention the debt owed by the veteran, and the deficiency from a wasted piece of property.

Now that you are in the first stages and you have a memo of understanding, Mr. O'Toole, how much do you think this will shorten the timeframe? Do you have any judgment in that regard?

Mr. O'TOOLE. If it is acceptable, Mr. Kane will answer that, Mr. Chairman.

Mr. SHELBY. Mr. Kane, go ahead again.

Mr. KANE. I can't promise, Mr. Chairman, that there will be a dramatic impact on the backlog of cases—for several reasons. First, since this law was passed, we not only did not get the necessary resources we had asked for to accomplish the program, but we have suffered a cut in our FTE——

Mr. SHELBY. By "resources," are you talking about more money?

Mr. KANE. More people, yes, sir. We not only did not get the people we asked for, but we suffered a cut. So we have the resource problem.

Also, as you know, Florida is about a thousand miles long. Our office is in St. Petersburg. We may have an old case in the Panhandle or in Jacksonville and then we may have another down near Miami. Obviously, the logistics of traveling back and forth on these foreclosure actions could be very time-consuming. So I don't think it is going to be a dramatic impact.

Mr. SHELBY. In Florida, do you foreclose by litigation?

Mr. KANE. Yes.

Mr. SHELBY. In other words, you file a lawsuit in the proper court as opposed to advertising in some States by newspaper; is that right?

Mr. KANE. Yes, sir.

One of the encouraging things in the memo of understanding is the fact that we are given authority to go into State courts, which will allow us to have——

Mr. SHELBY. To expedite things?

Mr. KANE. To expedite it, with a shorter calendar. Also, the court will be nearer to the property.

Mr. SHELBY. In Florida does the Justice Department or VA attorney, house counsel, whatever you call them, do they do the foreclosures, or are they done by private attorneys?

Mr. KANE. In Florida they are being done by the U.S. Attorney's Office.

Mr. SHELBY. Would it be worth an investigation into a State-by-State situation, to ascertain what would be the best, most expeditious and the most cost-efficient method to do this, whether by the U.S. Attorney's Office or by private attorneys?

Mr. KANE. As Mr. Schiffer said, in most jurisdictions we are not experiencing a problem. In most jurisdictions we're getting good service from the U.S. Attorney's Office. It is only in a couple of States that we really have a problem.

Mr. SHELBY. And what are they?

Mr. KANE. Florida and Ohio. That's where we have a large backlog.

Mr. SHELBY. What is the problem?

Mr. KANE. Well, it is probably economic. In Ohio, as you know, there has been a lot of joblessness, so there is a very large number of foreclosures pending, plus there may be a resource problem with the U.S. attorney. I don't know.

Mr. SHELBY. Shouldn't this be a high priority? I know the U.S. attorney is charged with doing a lot of jobs. When you're dealing with millions of dollars worth of properties, wouldn't you call that a high priority?

Mr. KANE. Quite frankly, if I was a young assistant U.S. attorney, trying to make a name for myself, and looking forward to a future with a large law firm, I think the last thing I would want to handle is foreclosures.

Mr. SHELBY. I understand that. You would probably want to be trying the people who are importing illegal drugs into the Miami area. But at the same time there are lawyers who may not be as ambitious as you, as far as litigation is concerned, and would like to get into the dry work of foreclosing.

My point is that you're dealing with millions of dollars of taxpayers' money, and when foreclosures aren't made expeditiously, this makes a tremendous impact on the deficit and everything else. That's why we have an obligation in this committee to question the VA and the Justice Department on why these foreclosures are not expedited. We all owe the taxpayers something.

Mr. KANE. Certainly, as we sit here in Washington, that's the view we get, this drain on the revolving fund, the impact on the revolving fund. But I have to suspect that someone sitting in

Miami is worried only about the U.S. attorney's office in Miami. They aren't worried about our problems. We have our problems and they have theirs.

Mr. **Shelby**. If that is not a high priority in the U.S. Attorney's Office—and obviously, when it takes 5 years to foreclose, no one is pushing it—wouldn't it behoove the Veterans' Administration to see about private attorneys—to see who could handle this; how long it would take; the cost; and put it out for bid? Wouldn't that make a little sense?

Mr. **Kane**. Yes, sir. We have done that.

Mr. **Shelby**. Could you get the following information and furnish it to the committee: First, how many VA loans in the State of Florida are in default; second, where they are; third, how long they have been in default; fourth, how much is owed on all these loans; fifth, what's the arrearage; and sixth, what is the timetable for foreclosure? In other words, if it was submitted to the U.S. Attorney's Office on a certain date, what has happened since then. I think this committee would like to have this information.

Mr. **Kane**. Mr. Brodie has that information, I believe.

Mr. **Shelby**. We would like to see it in writing, too, but go ahead and comment, Mr. Brodie.

Mr. **Brodie**. I'm not sure I have all the information for you——

Mr. **Shelby**. But you can get it, can't you since you have jurisdiction over all these loans?

Mr. **Brodie**. Let me give you an idea, if I may, as to some of the things we do have.

In Florida, for example, it usually takes 6 months to complete a foreclosure using a fee attorney——

Mr. **Shelby**. It takes 6 months, minimum?

Mr. **Brodie**. That's right.

Mr. **Shelby**. That is based on what?

Mr. **Brodie**. It is based on what we know is being done on GI loan foreclosures by fee attorneys.

Mr. **Shelby**. That's a minimum of 6 months? Is that a statutory delay? For example, let's use Jacksonville in Duval County, FL. I have a VA loan and I'm 4 or 5 months behind—whatever the mortgage banker's procedures are. If I just don't pay or can't pay, and there was a recommendation of foreclosure, do you submit it to the U.S. Attorney's Office?

Mr. **Brodie**. No, no—well, we do.

Mr. **Shelby**. What do you do?

Mr. **Brodie**. We do, under our Vendee Loan Program. But I was trying to say under the GI Loan Program, that's where a private lender will take the action to foreclose.

Mr. **Shelby**. OK. Who handles that?

Mr. **Brodie**. The fee attorney.

Mr. **Shelby**. Now, how long does that take?

Mr. **Brodie**. About 6 months.

Mr. **Shelby**. Why? Is that because of a crowded court docket?

Mr. **Brodie**. That's the normal time. You have to file a complaint.

Mr. **Shelby**. How long does it take to file a complaint on a standardized foreclosure? Probably 2 hours.

**Mr. Brodie.** Well, there is advertising and all of those things. But I can honestly tell you, that's the information we get, what it is taking in private industry right now.

**Mr. Shelby.** Is it advertising plus service of process on the defaulting party, or is it a combination?

**Mr. Kane.** Yes, sir, and the court docket backup.

**Mr. Shelby.** Aren't most of these foreclosures uncontested?

**Mr. Kane.** We think the majority of them are. About 60 percent are uncontested.

**Mr. Shelby.** So if they are uncontested, it shouldn't take 6 months. Don't they have a consent docket or something like that? You know they do.

**Mr. Brodie.** We would be thrilled to death if we could get ours done in 6 months.

**Mr. Shelby.** What I am getting at, is that there is obviously a lot of inefficiency in this program. You're bringing it out from your own testimony. When there is inefficiency there, the funding levels to support the VA loan program cost the American taxpayer a lot of money. Every time there is a delay, when it is sitting there, somebody is either tearing up the property, or it's deteriorating naturally from the elements.

Who pays for that? The taxpayer. Sure you go against the veteran for the deficiency, but you know you don't have a good history of collections. I think we have a responsibility in this committee to see that some changes are made.

**Mr. O'Toole.** I think we understand that, Mr. Chairman, and we're going to get that information that you have asked for and we're going to look at it a little bit more closely than we have.

**Mr. Shelby.** If you could expedite these foreclosures, privately, through the U.S. Attorney's Office, or through your own counsel, could it serve to reduce the appropriations necessary to the loan guaranty revolving fund?

**Mr. O'Toole.** Yes, it would.

**Mr. Brodie.** Somewhat.

**Mr. Shelby.** Sure it would.

**Mr. O'Toole.** Yes, it would.

**Mr. Shelby.** Mr. O'Toole, in your opinion, does the VA currently employ sufficient attorneys and support personnel to handle foreclosure lawsuits in most States where there is litigation, or is that a problem?

**Mr. O'Toole.** It certainly is a problem in some of the jurisdictions that we have identified, although as a rule we get good service from the General Counsel's Office. The problem is when we have to go outside the agency and we have the delays you have identified with the U.S. Attorney's Office.

**Mr. Shelby.** What basically is the most efficient and cost-effective? Is it fee attorneys, Veterans' Administration attorneys, or is it the U.S. Attorney's Office, Department of Justice?

**Mr. O'Toole.** I think, from our point of view, it depends on where you are.

**Mr. Shelby.** For example.

**Mr. O'Toole.** For example, in the State of Florida, where private lender foreclosures are being performed by fee attorneys, it is cheaper and faster to use fee attorneys. In those jurisdictions where we don't have those kinds of time problems that we have in Florida and Ohio, in some jurisdictions the General Counsel's Office can handle those faster than a fee attorney can.

Mr. SHELBY. Mr. O'Toole, dollarwise—and this would be your judgment at this point and you can correct it by written memorandum to me and to the committee—what would your basic judgment be as to your inventory now of foreclosed properties, the value of them, just roughly?

Mr. O'TOOLE. About $800 million.

Mr. SHELBY. $800 million. In other words, the VA is approaching nearly a billion dollars worth of inventory that you foreclosed on and haven't disposed of in some way?

Mr. O'TOOLE. That's right.

Mr. SHELBY. I know we have had some colloquys regarding this before; but what steps have been taken in the last 6 months to promote sales of this inventory around the country? How effective have they been, and what has been the most productive?

Mr. O'TOOLE. Well, we have done a number of things. First of all, we sent a task force around the country to the offices that had the highest inventory. They went out and met with private real estate people to find out what impediments there were in our system to increasing the sales activity. As a result of that, in those offices and jurisdictions we have made corrections.

We have allowed our offices to accept below list price offers. We have increased the sales commission on hard-to-sell houses. We have allowed discounts of up to 10 percent on all cash offers. We have agreed to pay reasonable discount points in those instances where the prospective purchaser will get outside financing. And we have contracted with a private auctioneer company to perform some auctions of hard-to-sell houses.

We had an auction in Detroit in October that worked out very well.

Mr. SHELBY. Did you sell a lot of them collectively? For instance, if you had 20 or 30 houses, did you try to sell them separately or collectively? In other words, wholesale.

Mr. O'TOOLE. Yes, we have done that, too. We put what we call bulk sale offers together as well as the auction procedure. In Detroit we sold 200 houses in the auction. It worked out very well.

Mr. SHELBY. Has this inventory of $800 million, more or less, grown in the last 2 years? Have you cut it down some or has it remained constant?

Mr. O'TOOLE. Since a year ago, the inventory has declined by about 1,000 properties, Mr. Chairman.

Mr. SHELBY. Dollarwise, what would that be, roughly?

Mr. O'TOOLE. Well, dollarwise—it runs about the same because we're working on an average sale price and that is increasing some. So the value of the inventory still is around $800 million, but the number that we have is moving down substantially.

Mr. SHELBY. Don't you think you're going to have to do something pretty drastic to get rid of $800 million worth of properties around the country? Don't you believe you should get rid of them?

Mr. O'TOOLE. Mr. Chairman, we think we should get rid of them. That's the only assets we have to avoid coming to the Congress and asking for an appropriation, the assets we have in that inventory.

Mr. SHELBY. You reduce that and then you have more money in the revolving fund, right?

Mr. O'TOOLE. That's right.

Mr. SHELBY. So the sooner you do this, and the more efficiently you do it, although you might take a loss. You're going to take a loss, right? It's only a question of when?

Mr. O'TOOLE. It's a question of how much——

Mr. SHELBY. Sure.

Mr. O'TOOLE [continuing]. And then it's a question of when we're going to take the loss. We want to reduce the size of the inventory in a manner that can get the maximum out of the asset that we own without giving the property away.

Mr. SHELBY. Sure.

The Chair recognizes the gentleman from New Jersey, Mr. Smith.

Mr. SMITH of New Jersey. Thank you, Mr. Chairman.

Mr. O'Toole, in your statement on page 9 you state that new defaults have averaged 13,540 per month for the first 5 months of fiscal year 1985. Defaults reported appear to be remaining stable at relatively high levels.

In light of the ongoing economic recovery, could you touch on the reasons why this is the case and are there a large number of defaults confined to any particular geographic area?

Mr. O'TOOLE. Mr. Smith, if it is acceptable, I would like Ray Brodie, who has responsibility in that area, to answer that question.

Mr. BRODIE. Congressman Smith, there are quite a few reasons for this continued high rate. Unfortunately, the economy has not recovered equally in all areas of the country. Many families who qualified for home loans based on their combined incomes have either lost or incurred a reduction in that income and now they are unable to meet their mortgage obligations.

Stable or declining values in areas of the country now have put the delinquent borrower in a position where he can't sell his property as readily as he could before. Previously unemployed borrowers now are returning to their jobs, but they can't cure their defaults because they have become overobligated while out of work, or they are now coming back to lower paying jobs.

The marital problem situation, the divorce rate, has been a problem in the past few years. Some States, as you may know, had moratoriums on foreclosures and now those moratoriums have ended. All of those foreclosures are now going to be processed to completion.

Mr. SMITH of New Jersey. How many States would that be?

Mr. BRODIE. Well, Pennsylvania was one. I think there was a moratorium in Michigan. I'm not sure, but I think Indiana had some in their State.

Another thing is you have the bankruptcy procedures that have been in effect for a long time. Some of these have been going along and now the property is being released from bankruptcy and they're proceeding with foreclosure.

So even though the economy in some areas may be improving, overall we have these factors that affect the foreclosure rate.

Mr. SMITH of New Jersey. Do you have any projections as to what the situation will be in 1986 and 1987?

Mr. BRODIE. I don't.

Mr. O'TOOLE. Well, we certainly estimate there is going to be improvement in those areas. Defaults are going to be coming down and foreclosures are going to be coming down.

Mr. SMITH of New Jersey. But no data to that effect?

Mr. O'TOOLE. Well, there is information in the budget that we can certainly provide for the record to show you. The trend is down, the actual numbers we can provide.

Mr. SMITH of New Jersey. Another question. If I read the testimony correctly, it indicates that the VA believes the maximum amount of the loan guaranty increase—the legislation that is pending before this committee and did pass the House last year—may increase the VA's default losses.

Could you comment on that?

Mr. O'TOOLE. Congressman, is that the legislation to increase the amount of the guaranty?

Mr. SMITH of New Jersey. Yes, the loan guaranty, as passed last year.

Mr. O'TOOLE. As I remember in the report on that bill, we pointed out that because of the increase in the amount of the guaranty it just increases our obligation. Of course, that would cause higher costs to the revolving fund.

Mr. SMITH of New Jersey. A couple more questions, Mr. Chairman.

Do you agree with CBO's estimate that the VA doesn't need the $400 million in fiscal year 1986 for the revolving fund, which is called for in the 1986 budget?

Mr. O'TOOLE. Well, we have had an opportunity to look at the CBO report. We have some disagreement with them on some items in the report and we want to have a meeting with the CBO analysts. We still think, based on our estimates and what is happening now, that we will need an appropriation in 1986.

Mr. SMITH of New Jersey. Mr. Chairman, one final question.

Does the VA feel the need to use fee attorneys in some areas of the country and, if so, have you communicated that belief to the Department of Justice?

Mr. O'TOOLE. Once again, Congressman, if Mr. Kane can answer that.

Mr. KANE. Yes, sir, we do believe we should have a test program in at least two States, Ohio and Florida, and we have communicated that request in writing to Justice.

Mr. SMITH of New Jersey. Do you have a time line in terms of implementation of the——

Mr. KANE. On fee attorneys? We will just keep trying.

Mr. SMITH of New Jersey. Immediately?

Mr. KANE. As soon as possible, if we can.

Mr. SMITH of New Jersey. OK. Thank you, Mr. Chairman.

Mr. SHELBY. The Chair recognizes the gentleman from Tennessee.

Mr. SUNDQUIST. Thank you, Mr. Chairman.

Mr. O'Toole, as I perceive what you're saying, you have sort of a crisis management team approach to this, that you sent a task force out and you're trying some new things; is that a fair statement?

Mr. O'TOOLE. I think that's accurate, Congressman.

Mr. SUNDQUIST. I compliment you on that.

Is it true that about half the properties are in about seven locations?

Mr. O'TOOLE. Yes.

Mr. SUNDQUIST. Do you have a goal with the task force efforts with what you're doing? Do you have some goal on how you would reduce that $800 million in the next 6 months?

Mr. O'TOOLE. Congressman, we have, and we have identified that to our field stations. I would like Tom Maher, the Assistant Director for Property Management, to tell you what our sales goals are for the field this year.

Mr. MAHER. Congressman Sundquist, the sales goals for 1985 are to continue the downward direction of the inventory by having a goal of selling at least 10 percent more properties than we are acquiring during the year. Our present projection is that we will sell about 26,200 properties during fiscal year 1985, which is more than were on hand at the end of the last fiscal year.

Presently approximately 30 percent of our inventory has been on hand for more than 12 months. Our secondary goal is to reduce the aging portion of that inventory to not more than 15 percent.

Mr. SUNDQUIST. So you want to reduce it by 10 percent over what you sell; is that it?

Mr. MAHER. We want to sell 10 percent more than we are acquiring.

Mr. SUNDQUIST. Is that a high enough goal? That doesn't seem like it's going to have that much effect.

Mr. O'TOOLE. Well, it is, I think, when you realize we haven't had a goal before.

Mr. SUNDQUIST. I commend you for having a goal, but it just seems like 10 percent is not enough. If you don't set your goals high enough enough in your field offices, they're going to meet the goal and a few are going to exceed it, but it seems to me that the 10 percent isn't enough. And I'm not being critical of you. I think you are taking a private sector approach with your management by objective and all those kinds of things. I think it is commendable. But I just wonder if the goal is high enough.

Mr. O'TOOLE. We can certainly look at that.

Another thing I want to mention, we have had some assistance in some of these efforts from the housing industry associations. The National Association of Realtors, who you will hear from later this morning, has formed another task force to look at the way we sell property and assist us in this effort. We met with them yesterday for about four hours and we certainly appreciate their assistance. These are the people who are in the business of selling houses and we feel we can get a good deal of help from those professionals.

Mr. SUNDQUIST. Absolutely, and I commend you for that.

I wish you would take a look at that goal. It just seems to me, Mr. Chairman, that it could be a little higher.

Mr. SHELBY. If the gentleman will yield, I think you're absolutely right. If you're talking about 10 percent, wouldn't you like to see a goal of a hundred?

Mr. SUNDQUIST. Somewhere between 50 and 100, sure. I think it is a dramatic problem, but you are doing some dramatic things. I commend you for it.

I have got one last question. This is off the wall and it may not be possible. But it seems to me that obviously we have an excess of houses that, for a lot of reasons, are on the market. It also seems to me that we have a group of veterans out of the Vietnam era who are having trouble, who because of their ages and economic status haven't moved into the category where many of them can afford to buy homes.

I wonder if it would be possible if we could have some dramatic program where we could cut our losses on some of these houses and give somebody a heck of a deal, such as Vietnam era veterans, and see if we couldn't clear the excess up, if there were some way we could match up with the excess housing the people who need some help with housing. I don't know if it would require legislation or not, Mr. Chairman.

Mr. SHELBY. I think you've got a good idea. I don't know what it would require, but it would certainly be a lot better than leaving a house in Florida five years awaiting foreclosure.

Mr. SUNDQUIST. Mr. O'Toole, do you have any comments on that?

Mr. O'TOOLE. No, other than we would be happy to try anything like that. It would perform the dual purpose of helping Vietnam era veterans and helping us move that inventory.

Mr. SUNDQUIST. I mean to give them a good deal, but it would be a good deal for everybody if we could clear this out.

That ends my questions, Mr. Chairman. Thank you.

Mr. SHELBY. The Chair recognizes the gentleman from Connecticut.

Mr. ROWLAND of Connecticut. Thank you, Mr. Chairman.

First I want to commend my colleague for presenting that idea. I think all of us would be very interested in pursuing that matter. Maybe we should continue from here with that. I would love to see something like that happen.

Mr. O'Toole, I am interested in the test auction which you had in Detroit. You mentioned that it was successful. Did you make money, lose money? What was the average price of the homes? You mentioned you wanted to continue on that in other areas where it has been tough and I was just curious as to the economic realities.

Mr. O'TOOLE. Well, before the auction we identified the total value of the 200 houses as being about $800,000. Taking into consideration the cost of the auctioneer and the other costs involved, we made $1.3 million from the auction.

Mr. ROWLAND of Connecticut. That was after your expenses?

Mr. O'TOOLE. That's right.

Mr. ROWLAND of Connecticut. Would you like to work on the deficit now? [Laughter.]

Mr. O'TOOLE. We were pleased with the way that auction went.

Now, Congressman Rowland, I think you have to remember that we priced those houses to sell at auction. They weren't priced the same as they were when they were being sold with financing. But we didn't make that much more over what we had them priced for.

We were so pleased, we contracted with an auctioneer to perform a number of auctions this year. In fact, our plan is to sell between

1,500 and 2,000 houses between now and the end of calendar 1985 under the auction procedure in different parts of the country. The next one is in Houston the first part of June and we're going to move it around and sell some of these hard-to-sell houses.

The interesting part of the Detroit auction was that almost all the houses were sold to owner-occupants. These are people who wanted to go in and fix them up and make them their homes. The prices were too high for speculators but they were consistent with what homeowners felt they could pay.

Mr. ROWLAND of Connecticut. You also mentioned in your comments, or reference was made by someone about an advertising program on foreclosed properties. Does the VA, indeed, have an advertising program? Maybe you could just briefly touch on it for us.

Mr. O'TOOLE. Well, we certainly feel that advertising is an important part of any property sales effort. We have always advertised to sell houses. For example, in fiscal 1984 we spent $650,000 on advertising. But we encourage the field stations to increase that to the point where we have already in the five months of fiscal 1985, spent $600,000 in advertising. We have seen the offices use some innovative full-page ads and do spots on radio and television. The advertising has been an important factor in increasing our property sales effort.

Mr. ROWLAND of Connecticut. Thank you, Mr. O'Toole.

I again want to reemphasize the idea that Mr. Sundquist came up with. I would like to see something happen and maybe we can all work together on that in the future. Thank you.

Mr. SHELBY. Thank you.

Mr. O'Toole and you other gentlemen, we appreciate your appearing and are looking forward to some of this data we have requested.

Mr. O'TOOLE. Thank you, Mr. Chairman.

Mr. SHELBY. We want to work with you. I know it bothers you when you've got $800 million in inventory. How can we assist you to get rid of it? We don't know but we are certainly going to try. Thank you.

Mr. O'TOOLE. Thank you, Mr. Chairman.

Mr. SHELBY. Our next panel will be Mr. Robert Spiller, president of the Mortgage Bankers Association, accompanied by Mr. Burton C. Wood, legislative counsel, and Mr. William E. Cumberland, general counsel. Ms. Jennie Stabile, chair, FHA/VA Monitoring Network, National Association of Realtors, will also be on this panel.

Mr. Spiller, your written remarks will be submitted to the record, without objection. You have had the benefit of hearing testimony here today. You're an expert in your own right, and are accompanied by real experts, Mr. Wood there and Mr. Cumberland. Please sum up any comments you might want to make. This will give us an opportunity to ask questions. The same goes for Ms. Stabile with the National Association of Realtors.

## STATEMENTS OF ROBERT J. SPILLER, PRESIDENT, MORTGAGE BANKERS ASSOCIATION OF AMERICA, ACCOMPANIED BY BURTON C. WOOD, LEGISLATIVE COUNSEL, AND WILLIAM E. CUMBERLAND, GENERAL COUNSEL; AND JENNIE STABILE, CHAIR, FHA/VA MONITORING NETWORK, APPEARING ON BEHALF OF THE NATIONAL ASSOCIATION OF REALTORS

### STATEMENT OF ROBERT J. SPILLER

Mr. SPILLER. Mr. Chairman, I am Robert J. Spiller, chairman and chief executive officer of the Boston Five Cent Savings Bank, and I am also president of the Mortgage Bankers Association of America.

We appreciate the opportunity to appear before you today to testify on the Veterans' Administration home loan guaranty program. We last appeared before you to discuss the President's 1986 budget and to urge you to reject the President's proposal to impose a 5-percent tax on the program. MBA applauds the action of this subcommittee and the rest of the Committee on Veterans' Affairs in reporting to the House Budget Committee that you are opposed to new taxes being imposed on veterans who want to buy a house.

We urge you to follow through as the budget process goes on. The Senate Budget Committee is recommending additional taxes for the VA Home Loan Program. We urge you to speak and act in the House to avoid and defeat the proposal for additional taxes on the Home Loan Guaranty Program.

MBA believes that the VA Home Loan Quaranty Program is an excellent one and that the VA has operated the program well. The current VA projection that it might need appropriated funds to carry on the Home Loan Guaranty Program has caused a close examination of the program to be appropriate. The program is not perfect, and it can be improved, but the performance of the program confirms that it is being operated consistent with the mortgage markets.

MBA has recently created a special task force of mortgage bankers who are active in providing private capital to fund the VA Home Loan Guaranty Program. This task force is working jointly with the VA to assist the VA in adapting the home loan guaranty program to current economic conditions of a relatively low rate of inflation of sales prices for homes.

In addition, MBA is cooperating with the American Legion, the Vietnam Veterans of America, and other veterans' organizations to explore adjustments in the home loan guaranty program that would improve its efficiency.

We are hopeful that these joint efforts, along with the passage through the system of the adverse effects of underwriting in the early 1980's, which can now be recognized as overly optimistic, will result in a healthy and effective VA Home Loan Guaranty Program in the foreseeable future to serve the veterans of Vietnam.

There are some adjustments that we believe should be made to the Home Loan Guaranty Program. The VA should be authorized to guarantee adjustable rate mortgages with such limits, if any, as the Administrator deems necessary. The program should accept mortgage interest rates that are negotiated between borrower and lender, and not limited to interest rates that are administratively set. And, with respect to vendee loans, the Administration should be freed to make the best deal possible when selling properties acquired by the VA in the program. However, increasing the number of cases in which the VA refuses to acquire title to property after default is not a favorable adjustment.

Mortgage bankers are proud of the fact that we have participated in making a program work that has helped 11.5 million American veterans become homeowners.

We appreciate your concern, Mr. Chairman and members of the committee, that the program continue to be operated in the most effective way possible.

Thank you.

[The statement of Robert Spiller appears at p. 57.]

Mr. SHELBY. I appreciate your testimony.

Is it Ms. Stabile?

Ms. STABILE. Yes.

Mr. SHELBY. OK. Your written testimony will also be submitted for the record, without objection, and made a part thereof. You may go ahead and briefly summarize your remarks.

## STATEMENT OF JENNIE STABILE

Ms. STABILE. Thank you.

My name is Jennie Stabile. I am a realtor from Woodland Hills, CA, the chairman of the FHA/VA Monitoring Network.

On behalf of the more than 670,000 members of the National Association of Realtors, I want to thank the chairman, Representative Shelby, and the members of the subcommittee, for the opportunity to present our recommendations on possible administrative changes in the VA Home Loan Guaranty Program as alternatives to increasing the 1 percent user fee.

With the conclusion of World War II, Congress created the Veterans' Administration Home Loan Guaranty Program in 1944 to assist the returning veterans with obtaining homeownership. The program was in response to the economic and sociological problems associated with postwar readjustments and it was intended to benefit the men and women because of their service to this country. There was no intention that the program serve as an instrument to achieve any Federal economic objective.

In the fiscal year 1986 budget proposal, the administration has recommended, as a part of the budget deficit reduction package, an increased user fee from the present 1 percent to 5 percent. The origin of this increase is OMB Circular A-70 which purportedly directs the Federal credit programs toward greater self-sufficiency through cost effectiveness.

In responding to the issue of the budget deficit, the National Association of Realtors has previously testified before the House and Senate Budget Committee, the House and Senate Banking Committees, and your subcommittee. We have recommended that any changes in taxes or tax-like user fees be designed to encourage investment in housing, homeownership, commerce and industry.

Mr. Chairman, the National Association of Realtors has actively opposed user fees on federally related housing credit programs. We feel that these fees represent a tax on the homebuying public and contradict the Federal Government's traditional commitment to housing.

Originally, the administration, in its February 4, fiscal year 1986 budget proposal, recommended an increase in the VA user fee from the current 1 percent to 5 percent. This dramatic increase will discourage veterans from participating in the program. As we testified in March, this 400-percent increase will likely cause a reduction of 17 to 22 percent of the number of VA originations.

The Senate Budget Committee's recent vote to increase the VA user fee to 3.8 percent, a 280-percent increase over current levels, is only slightly less damaging to the VA program and the national economy than the administration's February 4 proposal.

We have been in communication with the administration and understand that they have taken a new position on the proposed VA user fee increase. The fee would increase from the current one percent to 3.8 percent over the next 5 years. Most importantly, there would be a triggering mechanism attached to the fee that would be activated, either up or down, depending on the actuarial soundness of the revolving fund.

The National Association of Realtors is sensitive to the deficit problem of the VA revolving fund. Optimally, we would hope that the administrative changes recommended here today will provide the VA home loan guaranty fund with the type of monetary relief it would need to continue its objectives. While the Association opposes an increase in VA fees. Therefore we want to provide the subcommittee with the following suggested alternative approaches to improving the financial stability of the VA Home Loan Guaranty Program.

It is important to note, however, that the recent solvency problems facing the program are not simply a consequence of the administrative operation. While the continuing economic recovery has contributed to the health of the housing industry as a whole, there are still various socioeconomic factors which remain incidental to mortgage default. These factors are similarly present in the VA housing program. The default rate for the VA home loan guaranty program is not excessive and, in fact, parallels the industry norm.

We recognize that, because of the very nature of the VA Home Loan Guaranty Program, the underwriting standards are necessarily flexible. It is our understanding that the Inspector General's Office of the Veterans' Administration has recently initiated a long-term study to thoroughly review the administration's existing underwriting criteria to identify possible areas of improvement. We wholeheartedly support this effort and urge the VA to strengthen its standards, where necessary, in order to minimize the risk to the revolving fund.

As I am sure this subcommittee knows, the VA loan guaranty revolving fund was, until recently, self-sustaining. While a reduction in the availability of internal funding to the guaranty fund has been one of the major contributors to its financial ills, we are concerned that the VA's foreclosure policies have perhaps worsened the decline of the revolving fund.

In an effort to address this issue, Congress adopted a provision in the Deficit Reduction Act which requires the VA to undertake a case-by-case analysis in all default situations to determine which foreclosure method is most cost effective. We supported this approach when it was debated last year and believe that it is a viable alternative to the previous foreclosure policies. We urge its continued use in a comprehensive fashion. We also recommend that Congress periodically monitor and evaluate the effects of the case-by-case method.

Currently, the Veterans' Administration has some 22,000 properties in inventory, which you heard previously, valued at about $800 million. Because of the significance of these assets, the property management and disposition segment of the loan guaranty program is in the best position to contribute to the financial health of the program by maximizing the resale of its accrued properties.

Our members have discussed the property disposition situation and, in concert with the VA, are exploring ways in which realtors can assist in the resale of these properties.

Mr. Chairman, in conclusion, we strongly recommend that the subcommittee further review and evaluate the specific components of the VA Home Loan Guaranty Program. The user fee is not the solution to the program's deficit. More specific program-related changes must be considered for the long-term health and maintenance of the VA program.

I want to express my appreciation to the subcommittee for the opportunity to appear here today. At this time I request that the full text of my testimony be submitted for the record, and I would be happy to answer any questions you may have.

Thank you.

[The statement of Jennie Stabile appears at p. 83.]

Mr. SHELBY. Miss Stabile, regarding the ways that the realtors market so many properties in the country, how can they assist in the resale of these foreclosed properties?

We are concerned with $800 million worth of properties. We have got to be creative; we have got to move them. I know the VA is trying to do it.

How can the realtors do it? Do you have any suggestions?

Ms. STABILE. Well, we have submitted a program in the past, which we are working on, to overcome HUD's regulations and our industry's policies. So it is difficult, but we are attempting to do just that. The thought is to list all the properties with local realtors, who know the property, know the area, and are best equipped to sell the properties.

Mr. SHELBY. But there has got to be some flexibility there somewhere, doesn't there?

Ms. STABILE. Well, one of the problems stems from HUD not being able to give a listing to a broker——

Mr. SHELBY. Does the same thing apply to the VA?

Ms. STABILE. I believe that's true, yes. Yes, that's absolutely true.

Mr. SHELBY. And as long as you have those impediments, these inventoried properties aren't really going to move, are they?

Ms. STABILE. Right, because we have a problem with our policies in offering to a subagency—in other words, putting the listing in, say, the Multiple Listing Service.

However, let me just say this. Until we can get some of those problems ironed out—and if perhaps you could make some of those changes, maybe regulatory—we are on a local level of a membership of about 7,000, working with region 9 to have a separate list of the foreclosed properties of the VA. We are going to be offering a book and putting it in a computer to make it available to all realtors to be able to sell on a regional basis. So we are doing some of those things. I think it is going to take some time but I think it would be the best solution.

Mr. SHELBY. You're from California?

Ms. STABILE. Yes.

Mr. SHELBY. In California, does the Veterans' Administration send out a listing of the VA properties in California?

Ms. STABILE. They do upon request. That's part of the problem. The brokers don't get the listings unless they ask for them.

Mr. SHELBY. OK. Are you in the Los Angeles area?

Ms. STABILE. Yes. This is true in all of California.

Mr. SHELBY. We had an understanding that they send it out routinely.

Ms. STABILE. They do not send them out routinely, only upon request.

Mr. SHELBY. Let's assume you're a broker in the Los Angeles area, and you contact the VA because you're dealing with them, and you're dealing with HUD——

Ms. STABILE. Oh, yes.

Mr. SHELBY [continuing]. And you say: "I want a listing and I want to be available to participate in reselling these properties." Can't you do this?

Ms. STABILE. Yes, you can. They are very cooperative in that manner.

Mr. SHELBY. So you're basically saying what is going on now is not adequate from the size of the portfolio?

Ms. STABILE. That's true.

Mr. SHELBY. Thank you.

Mr. Spiller, Fortune magazine, among others, recently called the VA Loan Guaranty Program a "boondoggle," outlining the current losses in the loan guaranty revolving fund that we've been talking about.

Your statistics, however, show that the VA foreclosure rates have not increased as dramatically as conventional mortgages; is that right, and why?

Mr. SPILLER. Bill, you may want to answer that.

Mr. CUMBERLAND. That is correct, Mr. Chairman. In exhibit 5, attached to and made part of the full statement, is a graph which dramatically demonstrates that the rate of foreclosures on conventional loans has increased much more than the rate of foreclosures on VA loans or FHA loans.

Mr. SHELBY. I'm just glancing at the chart showing that.[1] Is the conventional upswing because of the adjustable rate mortgages or is it other things?

Mr. CUMBERLAND. Also on exhibit 4 which precedes that is set forth the number of foreclosures per thousand for FHA, for VA, and for conventional.[2] As exhibit 4 demonstrates down toward the bottom, the conventional rate is still significantly below the VA and FHA rates. But in trying to evaluate and judge the relative operation of different types of loan programs, the increase in the rate of the conventional loan dramatically demonstrates the VA program is being operated consistent with the way it has been over the years.

---

[1] See p. 76.
[2] See p. 75.

Mr. **Shelby**. OK. Is there any way you are exploring adjustments in conjunction with veterans' groups to improve the efficiency of the Home Loan Guaranty Program? What are some of the issues that you are exploring, if you are, and what can you do in the mortgage banking field to help the realtors, and us, to reduce this inventory? Do you have some suggestions, Mr. Spiller?

Mr. **Spiller**. Yes, we do. We initially met with Mr. Walters about 2½ months ago and appointed a task force that met within a few weeks of that. There are four basic areas that our people have been looking at with the VA. They can be categorized in the area of appraisals, forebearance, foreclosure, and underwriting. There are specific things in each one of those categories that our people have been discussing with them.

For example, in the appraisal area, perhaps the use of Fannie Mae appraisal forms should be substituted. Perhaps the lender should receive a copy of the appraisal so that he may review that appraisal before he writes the loan and commits, rather than just receive the CRV. If you receive only the CRV with simply that appraised number on there, you, as the underwriter or lender, really cannot, in my opinion—as an ex-appraiser and an ex-underwriter—you really cannot pass judgment on that with only a dollar number. I want to see what is behind that number, because the appraisal that my people may have done may differ. If that is the case, then I want to take a look at that and find out why. I think those are the kinds of things that will improve not only the appraisal process but will improve underwriting.

Topics like that are what is being discussed. We will be meeting again in New York in 2 weeks and immediately after that have a further meeting with Mr. O'Toole's people.

Mr. **Shelby**. Mr. Spiller, it is my understanding that the American Legion has stated that a veteran's mortgage should be no more than 35 percent of his net disposable income.

How do mortgage bankers make an eligibility determination?

Mr. **Spiller**. We will use the same kind of credit standards and underwriting standards that we would use, be it an FHA loan or a conventional loan.

Mr. **Shelby**. It's the basic criteria?

Mr. **Spiller**. It's the criteria of the percent of income and what the individual's expenses are, both housing and debt. Basically, we make a determination as to what we think that person can afford. Because I think for the person buying a VA house or buying a house insured by FHA, the underwriting should be identical. There should be no difference.

Mr. **Shelby**. Thank you.

The Chair recognizes the gentleman from New Jersey, Mr. Smith.

Mr. **Smith** of New Jersey. Thank you, Mr. Chairman. I have several questions.

First, Mr. Spiller, could you tell the committee how many VA foreclosures there have been in 1984—I was looking at your graph for an aggregate, and perhaps it is there and I just missed it—and also in 1985, year-to-date?

Mr. SPILLER. Do you have that, Bill?

Mr. CUMBERLAND. I don't. We can furnish it.

Mr. SPILLER. I don't have that number with me. We will get it.

Mr. SMITH of New Jersey. OK. We would appreciate it.

Would you guestimate it has been going up or down?

Mr. SPILLER. I would think probably down at this point.

Mr. SMITH of New Jersey. Slightly or——

Mr. SPILLER. Slightly. I can't say anything more accurately than that.

Mr. SMITH of New Jersey. We would appreciate it, if you could make that information available to the committee.

Mr. SPILLER. I will.

Mr. SMITH of New Jersey. Could you explain why the FHA foreclosure rate is less than the VA's? I notice that on page 5 of your testimony. It is slightly, as you point out, but it is nevertheless less.

Mr. SPILLER. Based upon my own experience, I would answer that it relates to downpayment more so than anything else. I think we see too many times with a 100-percent loan, and with points added to it, that we're really making a 104- or 105-percent loan. When you do that, you're just taking people to the limits. When people have a minimum amount of downpayment, and it is because they need to have that kind of a loan, they don't have that cushion, that is, the baby is born or there is hospitalization. All of a sudden that cash cushion that ought to be sitting in the bank someplace to protect on that emergency simply isn't there. The likelihood of that occurring is obviously going to occur more often when there is a 100-percent loan as opposed to a loan that has a legitimate downpayment of cash.

Mr. SMITH of New Jersey. One final question, and again, I want to thank you for your testimony. It is very detailed and it will help this committee immensely.

Can you provide the subcommittee with a guess as to why the number of restoration loan defaults has increased so much? You point that out in your testimony.

Mr. SPILLER. Do you know that one, Bill?

We don't know why. That was a strange one. I don't know why, honestly.

Mr. SMITH of New Jersey. Thank you.

I yield back.

Mr. SHELBY. The Chair recognizes the gentleman from Connecticut.

Mr. ROWLAND of Connecticut. No questions, Mr. Chairman.

Mr. SHELBY. Mr. Spiller, Mr. Wood, Mr. Cumberland, Miss Stabile, we appreciate your coming and participating in this hearing. Please feel free to submit additional comments or suggestions. We are looking for a way to help, statutorily or otherwise, to make this program work better. I think you are, too.

Ms. STABILE. Thank you.

Mr. SHELBY. Thank you for coming.

Mr. SHELBY. Our next panel will be the service organizations. Mr. Paul Egan, deputy director, National Legislative Commission, the American Legion, who will be accompanied by Mr. Joseph E. Miller, assistant director; Mr. Dennis Cullinan, Veterans of Foreign Wars, Special assistant, National Legislative Service; Lt. Col. David Passamaneck of AMVETS; Mr. Stephen Edmiston, Disabled American Veterans; Mr. Bob Moran, Paralyzed Veterans of America; and Mr. Richard Weidman, director of government relations, Vietnam Veterans of America.

I know we need a larger table, gentlemen. You are all representing fine organizations. You have had the benefit of the prior testimony this morning. All of your written testimony will be made part of the hearing record, without objection.

If you would briefly sum up your testimony or comments, we would appreciate it. I think you know this committee wants to work with your organizations to make this program work. Let's don't tear it up. Let's make it work.

Who wants to head it off? All right, Mr. Egan.

## STATEMENTS OF PAUL S. EGAN, DEPUTY DIRECTOR, NATIONAL LEGISLATIVE COMMISSION, THE AMERICAN LEGION, ACCOMPANIED BY JOSEPH E. MILLER, ASSISTANT DIRECTOR; DENNIS M. CULLINAN, SPECIAL ASSISTANT, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES; DAVID J. PASSAMANECK, LIEUTENANT COLONEL, USA (RET.), NATIONAL LEGISLATIVE DIRECTOR, AMVETS; STEPHEN L. EDMISTON, DEPUTY NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS; BOB MORAN, ASSOCIATE LEGISLATIVE DIRECTOR, PARALYZED VETERANS OF AMERICA; AND RICHARD F. WEIDMAN, DIRECTOR OF GOVERNMENT RELATIONS, VIETNAM VETERANS OF AMERICA

### STATEMENT OF PAUL S. EGAN

Mr. EGAN. Thank you very much, Mr. Chairman.

Let me say at the outset that, as mentioned by the mortgage bankers, we have opened what we believe to be a constructive dialogue with the bankers and some of the other veterans' organizations, particularly the Vietnam Veterans of America, in the interest of building a consensus towards reforming the program to make it as workable as possible, as solvent as possible, and, in fact, as income-generating for the VA as possible.

After having said that, as we see it, the home loan program is in serious trouble, and that is principally owing to the fact that there is a problem with solvency in the loan guaranty revolving fund. That problem as we see it is a direct result of the sale in 1983 and 1984 of its income-generating assets, its loan portfolio.

Apart from that, participation in the program is not what it should be, given the fact that the largest chunk of the population is the "baby boom" generation, consisting at least in measurable part of veterans. Obviously, high property values and the increase in property values over the years have frozen many people out of the market who would otherwise be in the market. The fluctuations in interest rates and their sustained high levels have also created some serious problems.

So as we look at the program and how we might improve it, we feel that we must first restore the solvency of the loan guaranty revolving fund, dramatically increase veteran participation, somehow find a way to make interest rates more affordable, and perhaps add a couple of additional facets to the program to make veterans purchasing homes better risks for lenders. Of course, the solution necessarily would have to be satisfactory to the bankers, the builders, the borrowers, and the realtors in order for a consensus to be built sufficient to get something like this through the Congress.

We think we have assembled a solution and we present it in the form of our statement to this committee for its consideration. It is a rather complex and far-reaching reform program. There are six principal points to it.

The first of those would involve accelerating the vendee loan program to get rid of as many of those foreclosed properties as possible. We think the general public ought to be made more aware of those properties than we think the public is, and we think that by aggressively advertising those properties, those properties could be moved more quickly. It is heartening to hear that the VA is beginning to do just that.

Additionally, we think that veterans who would wish to purchase those properties ought to be able to purchase those properties directly from the VA, and any savings resulting from not using a realtor ought to be passed on to the veteran, thereby making the properties more affordable and more quickly moveable.

The second part of this program would be to establish a special program for first-time homebuyers, in which case there would be an adjustment to the guarantee. If the guarantee were a flat $27,500, we would permit bankers to purchase increases in the guarantee up to a maximum of 60 percent in five percent increments in exchange for each percentage point on the mortgage that the banker was willing to go below the maximum rate set by the Administrator.

The third point would be to offer mortgage insurance against short-term economic reversal. Instead of paying a user fee, the veteran would pay perhaps one-half percent or 1 percent which could be amortized over the life of the mortgage which would provide insurance against default on a short-term basis. We think that would add sufficient security to the loan to make this program more inviting to the lenders involved.

A fourth part of this would—again, this is with the first-time homebuyer program—be to make these loans such that they are not assumable. Obviously, if a lender thought he was going to be saddled with a low interest rate for a long period of time, there wouldn't be much incentive to offer a lower interest rate loan. So there would be no assumability on these first-time homebuyer mortgages that were below the maximum rate set by the Administrator.

An additional point is a mechanism for refinancing in lieu of foreclosure, which would make refinancing more affordable and we believe would allow easier refinancing without adding additional debt.

Finally, we think that some of the recommendations contained in the lender's handbook—that's a series of recommendations made by the VA for lenders—should be given the force of law, particularly with regard to procedures on forebearance.

Also, we think that with regard to used properties the VA ought to vigorously inspect those properties. There are probably a lot of people who are defaulting because of unanticipated renovation costs that they weren't aware of when they purchased the property.

That about summarizes it. It's a very complicated plan. I could talk a lot longer than this on it, but in the interest of time I will defer to the others.

Mr. SHELBY. We have been made aware of it. You have got some real proposals here, though, and we appreciate your submitting them to us and mentioning them again today.

[The statement of Paul Egan appears at p. 92.]

Mr. SHELBY. Mr. Cullinan, your written remarks, as I said earlier, will be submitted for the record. If you want to comment or say anything, go ahead.

## STATEMENT OF DENNIS M. CULLINAN

Mr. CULLINAN. Thank you, Mr. Chairman, for the privilege of appearing before this subcommittee to present the views of the Veterans of Foreign Wars of the United States with respect to the Veterans' Administration Home Loan Guaranty Program and H.R. 1516.

In our view, the VA Home Loan Guaranty Program is demonstrably one of the most successful and beneficial VA programs available to veterans. Clearly, a vast number of veterans would not be in their own homes today if not for this program. We believe the VA Home Loan Guaranty Program should continue to enjoy the full support of both the Congress and the administration.

Mr. Chairman, it is a matter of record that the Veterans of Foreign Wars strongly opposes any increase in the user fee for VA guaranteed home loans. We hold that any such increase would constitute a discriminatory tax and work both to the veteran's and the home loan program's detriment. We are also against repealing the Veterans' Administration's current authority to establish a home loan interest rate. We believe that departing from this policy would be a serious mistake, working against the veteran's best interest and seriously jeopardizing this most beneficial program.

Of course, the question still remains why over the past few years the VA foreclosure rate has remained so high. We believe one factor is the current high rate of divorce in this country.

The high rate is also largely attributable to a two-part lag in this Nation's financial mending. The first lag occurs at the regional level; that is, where some parts of the country have fully recovered, there are still others that have yet to experience the boon of financial health.

The second lag occurs within the overall national economic recovery at the individual level. Even within economically prosperous regions there are individuals, veteran borrowers, who have yet to regain their financial strength. These veterans will recover but they need time, so it is our contention that the authority of the Administrator to assist veterans in keeping their homes should be greatly expanded.

With respect to reducing foreclosures, we feel that veterans should be extended periods of grace and receive priority assistance from the VA in order to make their mortgage payments and keep their own homes. We also recommend that the VA be notified when a mortgage payment is 1 month overdue rather than only after three payments have been missed, as is currently the practice.

We also believe considerable improvement can be made in the manner in which defaulted properties are handled. It is of tantamount importance to reduce the amount of time property is held by the VA. One possibility would be for the VA to sell some of its holdings directly, instead of exclusively through brokers, in order to achieve quicker sales. Finally, increasing auctioning of such properties might also decrease holding time.

Also, the manner in which property is acquired should be scrutinized. Public Law 98-369 requires that property be acquired on a case-by-case basis, that the VA may not acquire property when costs would be in excess of the amount liable under the guaranty. Vigorously pursuing this case-by-case approach may result in even greater savings.

Also under consideration at this hearing is H.R. 1516. To our minds, this bill enjoys the dual virtues of effectively redressing what is undoubtedly an inadvertent inequity of law while costing the Government little or no money. If enacted, this measure would rightfully benefit that most special class of citizen—the service-disabled veteran—and has the strong support of the Veterans of Foreign Wars.

Mr. Chairman, that concludes my testimony.

[The statement of Dennis Cullinan appears at p. 109.]

Mr. SHELBY. Thank you.

Lt. Col. David Passamaneck.

## STATEMENT OF DAVID J. PASSAMANECK

Colonel PASSAMANECK. Thank you, Mr. Chairman. AMVETS appreciates the opportunity to present our views on the VA loan guaranty program. We endorse the enactment of H.R. 1516.

As we testified concerning the 1986 VA budget, we are vehemently opposed to increasing the user fee from 1 to 5 percent. The effective result of this increase will be to eliminate the 100 percent financed mortgage which has been the most attractive feature of the singularly most successful veterans benefit in the Nation's history.

The President's budget for fiscal year 1986 includes a request for another appropriation of $404.6 million to meet the shortfall that the administration expects to occur in the fund during fiscal year 1986. Alternatively, in lieu of that appropriation, the President's budget proposes the enactment of legislation to increase the VA loan guaranty funding fee by 400 percent, from 1 to 5 percentage points. This approach contrasts sharply with the Congressional Budget Office's projection that the fund will be self-sustaining through the 5-year projection period and that no appropriation or fee increase will be needed to keep the fund solvent in fiscal 1986 or through fiscal year 1990.

Moreover, the VA's direct loan revolving fund, DLRF, will, according to the VA, have an unobligated balance of $77.7 million at the beginning of fiscal year 1986, rising to $122.3 million by the close of the fiscal year. Under a provision included each year in the HUD-Independent Agencies Appropriations Act, unobligated DLRF balances are available for transfer to the loan guaranty fund. The DLRF has thus provided an additional cushion to ensure the solvency of the Loan Guaranty Program. obviating the need for a fee increase.

The imposition of a 4-percentage point increase in the fee when the receipts are not needed to keep the fund solvent would constitute a particularly heavy burden, as among veterans of wartime service, on veterans of the Vietnam era, who are at this time the most likely to be in the market for their first homes and be most in need of the assistance that the guaranty provides.

We note with approval that the Mortgage Bankers Association, which is vitally concerned with efforts to reduce the Federal deficit, supports our position that the VA program is an entitlement program which Congress did not set up to be user fee supported, and that the proposed increased fee will result in an approximately $2,000 additional cost to the veteran and that the no down payment feature of the VA loan will disappear. This could cause severe impairment of the program as a home ownership tool for the veteran.

Looking at the effect of the fee increases, one cannot help wondering whether the real intent of the fee raising is not part of the acknowledged scheme of the OMB and Treasury to bring an end to these programs. OMB has made its general opposition to loan guaranty programs perfectly clear. The implementation of OMB Circular A-70, issued in August of 1984, will destroy the VA Loan Guaranty Program as well as other similar programs, such as FHA. Among other drastic restrictions which A-70 would impose, the elimination of the no down payment VA mortgage heads the list.

Thank you, sir. I will be available to answer questions.

[The statement of Lt. Col. David Passamaneck appears at p. 119.]

Mr. SHELBY. We appreciate your testimony.

Mr. Stephen Edmiston, Disabled American Veterans. Go ahead, sir.

## STATEMENT OF STEPHEN L. EDMISTON

Mr. EDMISTON. Thank you, Mr. Chairman. It is a pleasure to be here this morning on behalf of the more than 992,000 members of our organization to comment on the pending legislation and the VA Home Loan Guaranty Program.

With respect to the legislation that would remove the inequity in the Housing Assistance Program for certain seriously-disabled service-connected veterans, H.R. 1516, the DAV would like to see this subcommittee favorably consider that legislation and report it out.

With respect to the VA Home Loan Guaranty Program, as you know, Mr. Chairman, that program has been a tremendous success for more than 40 years and has assisted many millions of veterans. As I have outlined in my testimony this morning, the DAV is adamantly opposed to the administration's legislative proposals regarding the Home Loan Guaranty Program. We believe that other administrative and legislative initiatives could be implemented, as we have noted in our testimony, that would greatly assist in correcting some of the deficiencies in the loan guaranty revolving fund and assist other veterans who have lost their homes due to foreclosure.

In closing, Mr. Chairman, we would urge you to continue to lead the way in protecting this program and ensuring that veterans will truly have a housing program from which they can benefit. Thank you for this opportunity.

[The statement of Stephen L. Edmiston appears at p. 123.]

Mr. SHELBY. We appreciate your testimony.

Mr. Bob Moran, Paralyzed Veterans of America.

## STATEMENT OF BOB MORAN

Mr. MORAN. Thank you, Mr. Chairman. I will summarize my statement.

Initially I want to extend PVA's appreciation to you, Mr. Chairman, and members of the subcommittee, for your ongoing efforts to improve the effectiveness of these most important programs that directly affect our members. All of PVA's members are catastrophically disabled veterans and we all know too well the difficulties associated with and the true value of affordable, accessible housing.

PVA supports H.R. 1516 and commends you, Mr. Chairman, and Mr. Smith, for recognizing the inequity that has existed in the VA's Housing Program that provides assistance to certain disabled veterans in acquiring specially adapted housing.

It should be noted that most homes are not built to accommodate persons with disabilities. Consequently, most homes must be remodeled so that they will be accessible, and this entails certain necessary structural alterations and added costs. It is these modifications that make special adapted homes appropriate residences for disabled veterans.

This legislation, H.R. 1516, removes the inequity that exists and allows eligible veterans the opportunity to receive the assistance in acquiring these residences that have already been specially adapted. PVA has emphasized and testified before to the importance for providing disabled veterans with opportunities to restore their lives to ones of independence and dignity to the fullest extent possible.

Last, Mr. Chairman, in reference to the VA's Home Loan Guaranty Program. Since its inception in 1944, the VA Home Loan Guaranty Program has assisted over 11 million veterans and their families in gaining suitable, affordable housing.

This year the administration is proposing legislation to increase the user fee on VA guaranteed loans from 1 percent to 5 percent. PVA was pleased, Mr. Chairman, to have you state at the hearing on March 5, 1985, with members of the subcommittee agreeing, that it is your belief that the proposal to raise the user fee was a "quick fix" and that our Nation's veterans would incur increased expenses associated with purchasing a home which would negate the beneficial aspects of the no down payment feature. PVA opposes this proposal of raising the user fee from 1 percent to 5 percent.

We believe that the VA Home Loan Guaranty Program has served veterans well, and as evidenced by testimonies here today, there are certain initiatives and alternatives that could be implemented which would insure the VA Home Loan Guaranty Program would continue to serve veterans.

This concludes my statement. Thank you.

[The statement of Bob Moran appears at p. 133.]

Mr. SHELBY. We appreciate that, Bob.

Mr. Richard Weidman, Vietnam Veterans of America.

### STATEMENT OF RICHARD F. WEIDMAN

Mr. WEIDMAN. Mr. Chairman, the Vietnam Veterans of America thanks you for this opportunity to present our views here this morning.

If I could just begin by reiterating the point that we feel the real need—and would commend you as well and congratulate you on the staunch defense you have made against the administration's attempt to undermine the program—but we feel we need to concentrate at this point on essentially getting out of the trick bag into which we have been led by OMB and get out of the year-to-year crisis by changing some of the things that have led us to this past and return to a structure that will allow the original intent of the program to survive for the next 40 years, as it has for the past 40 years.

Just touching on those points briefly, we believe the codification of section (f) would, in fact, protect the consumer, if you will, and give force of law to what is now only voluntary guidelines. The fact that the VA is participating in consumer protection and have been spending a good deal of money is something that we laud, but in fact the VA should practice what it preaches.

No. 2, allow the VA full discretion to properly manage the loan portfolios and get the dead hand of OMB off of Mr. O'Toole's shoulder.

No. 3, change forebearance procedures and enact within each VA regional office a real reorganization, if you will, so that DVB services are made available on a regular basis to folks who are starting to get into trouble on their mortgages. Essentially what it is is addressing the veteran as a whole person—something we have talked about before, but we haven't seen much action in this regard.

No. 4, give the VA means and authority, and the key there is means, to recast loans by facilitating refinancing and to prevent foreclosure.

No. 5, we very much agree and support the short-term mortgage assistance insurance proposal, and number six, moving to a proposal modeled after the highly successful, since 1922, CAL-VET program that would essentially be the long-term solution in providing truly low-cost, fixed-term mortgages for first-time homebuyers.

In summary, Mr. Chairman, we believe very strongly at Vietnam Veterans of America that the home loan mortgage guaranty program is, in fact, a vital readjustment benefit and should be seen in that light. Therefore, the emphasis should be on first-time homebuyers and everything should be measured by the ultimate impact on that first-time homebuyer.

That concludes my summary, Mr. Chairman. Thank you very much.

[The statement of Richard F. Weidman appears at p. 139.]

Mr. Shelby. First of all, we appreciate all of your interest in the VA home loan guaranty program. You know first hand from previous hearings how it is under attack. If OMB and the administration has its way, you're not going to have it. I believe I speak for the subcommittee, or at least a lot of us on it, that we are going to do everything we can to work with your veterans service groups to keep it here.

It's not going to be easy. A lot of people say we're going to keep it alive, but if you go to sleep on it, it will be gone. I think we all want to make the program work, and we need to do something about the $800 million inventory. Just letting property sit there I think, is a mistake. I know there are many proposals on it.

The Chair recognizes the gentleman from New Jersey, Mr. Smith.

Mr. Smith of New Jersey. Thank you, Mr. Chairman.

I appreciate the very kind comments that came from several of the witnesses concerning your leadership and my own and that of other members of this subcommittee. But I think it should be pointed out that we owe a real debt of gratitude to the staff, and in particular Gloria Royce, who has done an outstanding job on this committee in not only helping to bring about these hearings but also in dissecting and in going through the various materials and coming up with some very good proposals and recommendations for the members of this subcommittee. I want to commend you publicly for that, Gloria.

Mr. Chairman, I have a couple of very short questions to the American Legion and to the DAV. Mr. Egan, I understand that you feel the lending industry should make loans at an interest rate lower than the market in return for a larger guarantee. I was wondering if you have discussed that idea with the industry, and if you also could just comment as to whether or not you have discussed the entire six-point program with the VA and with the lending industry.

Mr. Egan. First of all, we haven't discussed this in any substantive fashion with the Veterans' Administration, but we have discussed it with the Mortgage Bankers Association and we have provided them with advance copies of our statement. We have gone over the points and have had meetings at their headquarters, and at our headquarters.

While I can't speak for the mortgage bankers, we are not at all discouraged by what we believe to be their receptiveness to the ideas we have presented. One of the things that they suggested with regard to the lower interest rate, just throwing it out on their part—and again, I can't speak for them—was to allow the VA to purchase those loans that were made below the maximum interest rate set by the Administrator, again in the interest of rebuilding that all-important home loan portfolio and its income-generating capability.

Mr. Smith of New Jersey. One additional question, Mr. Egan.

Have you checked with anyone from the VA regarding your idea of using VA personnel to actually get into the selling of homes? It is my understanding, with just a preliminary analysis, that they wouldn't have sufficient personnel. Perhaps you might have some data on that.

Mr. EGAN. Well, it is probably true—in fact, it's almost certainly true—they don't currently have enough FTEE to carry out that function. However, weighing whether it is more important to unload that inventory of foreclosed properties against the expense of hiring additional FTEE to get the job done, it seems to me that saving the program and restoring the solvency of the program far overshadows the concern that we might have with adding new employees to that division.

Mr. SMITH of New Jersey. Mr. Edmiston, first of all I want to let you and the other veterans' organizations know that I support H.R. 1493, to remove the age limitation of 70, which you point out in your testimony as being a very laudible bill. I also note that on page 8 you ask five specific questions of the VA that I think the VA should answer.

I would ask, Mr. Chairman, if there is no objection, that those questions be put to the VA, in addition to some other questions that I would like to submit.

Mr. SHELBY. That will be made part of the record, without objection.

Mr. SMITH of New Jersey. Thank you, sir. I appreciate that. I would like to see them become part of the record.

One final question to the VFW and DAV. Has the VA given you a cost estimate on your mortgage insurance program proposal?

Mr. EDMISTON. No, I have not seen a cost estimate on that proposal.

Mr. SMITH of New Jersey. Perhaps we can ask the VA to do that, then.

Thank you. I yield back.

Mr. SHELBY. The gentleman from Connecticut.

Mr. ROWLAND of Connecticut. Thank you very much, Mr. Chairman. I want to tell you that I do share the sentiments that you expressed, and you certainly speak in the same manner that I feel about some of these issues.

I want to thank the veterans' organizations for your continuous support. It hasn't been a very good year, with the many recommendations that have come from OMB. I want to thank you for presenting good, logical, reasonable arguments over the past several hearings that we have had.

I especially want to make a comment about the Vietnam veterans and how important it is to help those first-time buyers. Many of those people are just coming into the housing market or are just starting to get into the housing market, and as we go past the economic problems we had in the 1980's, now is the time to really concentrate on that area.

What I would like to do is ask a question of Mr. Egan, if I may. Paul, what would be the effect of buyers not being able to assume VA mortgages? What do you think it would do to the housing market in general?

Mr. EGAN. I'm not sure it would have any appreciable effect at all. The idea is, if we understand that the biggest bulge of the population is the baby boom generation—and we're talking about hundreds of thousands of veterans in that age group—and that they are at prime homebuying age, the tradeoff for getting an affordable mortgage, the tradeoff for being able to purchase a home at all, makes it seem reasonable to us to offer that sweetener to the lender by withdrawing the assumability of the mortgage.

We know that the average length of time that a veteran holds a mortgage is approximately 13 years. If it was assumable, someone would be stuck with a very low interest mortgage for up to 30 years and that would constitute, I think, a significant disincentive for lenders to want to become involved in this.

Mr. ROWLAND OF CONNECTICUT. Thank you.

As the youngest Member of Congress, I have some parochial interests in taking care of the baby-boomers, and I share those concerns.

I also want to add that in the earlier part of the hearing there was some talk about working something out with the Vietnam vets taking over some of the foreclosures and so forth. I hope if any of you have some ideas and suggestions, that you will make us aware of them. I appreciate your concern and your continued interest in the fight that we're waging.

Thank you.

Mr. SHELBY. I thank the gentleman for his participation.

Again, I want to thank the panel for your participation in all the hearings on veterans' programs. I have talked with a lot of you, and I think you all share the view that this VA home loan guaranty program is very important to veterans. Thank you, gentlemen.

The subcommittee is adjourned.

[Whereupon, at 11:55 a.m., the subcommittee was adjourned.]

# APPENDIX

99TH CONGRESS
1ST SESSION

# H. R. 1516

To amend title 38, United States Code, to remove an inequity in the Veterans' Administration program to provide assistance to certain disabled veterans in acquiring specially adapted residences.

## IN THE HOUSE OF REPRESENTATIVES

MARCH 7, 1985

Mr. SHELBY (for himself and Mr. SMITH of New Jersey) introduced the following bill; which was referred to the Committee on Veterans' Affairs

# A BILL

To amend title 38, United States Code, to remove an inequity in the Veterans' Administration program to provide assistance to certain disabled veterans in acquiring specially adapted residences.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

### SECTION 1. ASSISTANCE TO CERTAIN DISABLED VETERANS IN ACQUIRING HOUSING WITH SPECIAL FEATURES ALREADY IN PLACE.

(a) IN GENERAL.—Section 801(b)(1) of title 38, United States Code, is amended by inserting before the period at the end the following: "or in acquiring a residence already adapted with special features determined by the Administrator to be reasonably necessary for the veteran by reason of the veteran's disability".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply with respect to residences acquired after September 30, 1985.

# Department of Justice

---

STATEMENT

OF

STUART E. SCHIFFER
DEPUTY ASSISTANT ATTORNEY GENERAL
CIVIL DIVISION

BEFORE

THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

CONCERNING

VA HOME LOAN PROGRAM

ON

APRIL 18, 1985

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to appear before you to discuss, on behalf of the Department of Justice, implementation of the provisions of the Deficit Reduction Act of 1984 providing authority for Veterans Administration attorneys to bring suit to foreclose loans.

The Deficit Reduction Act of 1984, 98 Stat. 494 et seq., amended Title 38 of the U.S. Code by adding a new section 1830 which authorizes Veterans Administration ("VA") attorneys to bring suit on behalf of the United States to foreclose loans made or acquired by the Administrator of VA and to recover property acquired by the Administrator. It also empowered the Administrator, with the concurrence of the Attorney General, to acquire the services of private counsel to bring suit for the same purposes on behalf of the United States.

A Memorandum of Understanding ("MOU") dealing with a delegation of authority to VA attorneys has been negotiated and signed. The principal elements of the MOU are as follows:

1. The scope of the MOU is limited to a delegation of authority to VA attorneys to bring suit in court to foreclose loans made or acquired by the Administrator of Veterans Affairs under chapter 37 of Title 38, United States Code, and to recover possession of properties acquired by the Administrator under this chapter. This delegation includes the authority to file suit and conduct litigation (including

compromise or termination) in federal or state courts (MOU, ¶¶ 1-3).

2. The VA and the Department of Justice agree to cooperate fully in conducting actions under the MOU. The United States Attorney may place reasonable restrictions on the number of cases filed. The VA shall notify the Department of Justice when unusual or significant issues arise, or when an appeal is taken. In such cases the Department of Justice may take over the conduct of the litigation. Decisions concerning appeals remain with the Department of Justice (MOU, ¶¶ 4-9).

3. The primary responsibility for carrying out the MOU is placed on the local United States Attorneys and the VA District Counsels. Should any dispute arise, such dispute will be referred to the Civil Division of the Department of Justice for final resolution, in consultation with the General Counsel of the VA (MOU, ¶¶ 10-11).

Incidentally, a somewhat similar MOU between the VA and the Department of Justice was signed on October 21, 1980. This MOU delegated litigating authority to the VA to collect debts below $1200 which were owed the United States as a result of VA benefit programs.

A more sensitive question is presented by the retention of private-fee attorneys to litigate mortgage foreclosure cases. Under longstanding statutory authority, now codified at 28 U.S.C. 516 and 519, the Attorney General is designated as the chief lawyer for the United States government.

There is great value is such a centralization of litigation authority. A centralized review of cases ensures against agencies of the United States taking inconsistent litigation positions and permits the United States to carefully select cases for appeal, thus enhancing our ability to develop the caselaw in a positive direction. Finally, the Attorney General, as the government's lawyer, is often called upon to resolve disputes that arise between federal agencies in the context of litigation.

We are giving careful consideration to the VA's request that we concur in their perspective that the limited use of private counsel in mortgage foreclosure be undertaken in a few judicial districts on a trial basis. In the vast majority of the 95 judicial districts the local United States Attorneys' Offices are doing an adequate job in prosecuting VA mortgage foreclosure cases. We will review any judicial districts where the press of other business may be restricting the ability of the local U.S. Attorneys to prosecute such cases.

We will, therefore, continue to consult with the VA on their mortgage foreclosure caseload and regarding the need to amend the Memorandum of Understanding. Any authorization of private attorneys would be a pilot program in a few judicial districts, subject to necessary safeguards and protections. Among those safeguards will be the careful supervision of private counsel by the VA and the Justice Department, as well as the right to withdraw a case from private counsel when necessary.

I would be happy to answer any questions which the Subcommittee might have.

STATEMENT OF ROBERT M. O'TOOLE
DIRECTOR, LOAN GUARANTY SERVICE
VETERANS ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON HOUSING
AND MEMORIAL AFFAIRS
HOUSE OF REPRESENTATIVES
APRIL 18, 1985

Mr. Chairman and Members of the Committee:

It is a pleasure to appear before you this morning to discuss the operation of the Veterans Administration's housing program. I have with me today James P. Kane, Assistant General Counsel; Raymond L. Brodie, Assistant Director for Loan Management; and Tom Maher, Assistant Director for Property Management.

A period of economic stability has permitted VA to keep the interest rate on guaranteed home loans within the 12½ percent to 14 percent range through all of 1984. This is up slightly from the 1983 range of 11½ percent to 13½ percent and down significantly from the 1981-82 levels. The current rate of 13 percent has been in effect since March 25, 1985. During Calendar Year 1984, VA issued 431,874 certificates of reasonable value and 107,090 certificates of commitment to guarantee loans. Also during that period, the VA guaranteed 209,841 loans, over 65 percent of which were made without a down payment from the veteran purchaser. These no down payment loans had an average purchase price and loan amount of $59,564. For those veterans who obtained loans with a down payment, the purchase price averaged $82,514 with an average loan amount of $72,257. Veterans obtained 11,938 manufactured home loans in 1984. The average purchase price for manufactured homes was $21,753, with an average loan amount of $21,020.

The VA home loan program has assisted over 11.4 million veterans to obtain housing since the program was enacted in 1944. Mortgage credit totaling almost $234 billion has been infused into the economy; much of these funds would not have been available without the benefit of this program. Over $82 billion worth of these loans have been repaid in full as of last year.

There is a continuing emphasis, Mr. Chairman, on improving productivity of field stations. In 1984, over 47 percent of all VA guaranteed loans were originated on the "automatic basis" whereby loan originators, rather than the VA, review the income and credit of the applicant prior to loan closing. We will continue to streamline and improve processing procedures to allow for approval of GI loan applications in a manner which is quick and efficient while still protecting the interests of veterans and the Government.

During the 12-month period ending January 1985, the total number of Loan Guaranty field station employees decreased from 1,997 to 1,857. We expect to be able to continue to effectively perform the mission of the program with our currently authorized staffing levels.

## VA IMPLEMENTATION OF 1984 LEGISLATION

Recent major changes in the Loan Guaranty program were made by the enactment of Public Law 98-369, the Deficit Reduction Act of 1984. The legislation called for the development of guidelines under which VA will continue to acquire properties securing VA guaranteed loans which are in default. The standard procedure when VA guaranteed loans went into default had been for the VA to establish a maximum amount that it would pay the holder for the property if the holder was the sucessful bidder at the foreclosure sale. Establishment of such a price, known as the "specified amount" occurred when it was determined that the value to VA of the real property exceeded the unguaranteed portion of the indebtedness, and VA could reduce its maximum claim liability by acquiring and reselling the security. This procedure also benefitted the veteran, because the value of the property determined the amount specified for credit against the loan indebtedness, and prevented a future deficiency judgment or other indebtedness being established against the veteran based on the prices which prevail at distress foreclosure sales.

Under the new legislation, VA is required to examine the "net value" of the security as a potential asset. The net value is determined by subtracting the estimated costs of acquiring, managing, repairing, and reselling the property from its fair market value. If "net value" exceeds the total indebtedness less the maximum amount which VA would have to pay on the guaranty, the VA will acquire the property for resale so as to recover that value and reduce the loss to the Government.

If "net value" does not exceed the difference between total indebtedness and the amount payable under the guaranty, the VA will pay the guaranty claim and allow the holder to dispose of the property. Field stations are processing foreclosures in conformance with the new formulas and the legislation has reduced the number of properties conveyed to the VA and the expenses associated with management and resale. In FY 1983 specified amounts were established for 96.8 percent of the VA guaranteed loans that were foreclosed. In FY 1984 this figure was 93.6 percent and for the first quarter of FY 1985, this figure is 90.6 percent. The decline is directly attributable to implementation of the property acquisition guidelines called for in Public Law 98-369.

Another significant modification in the Loan Guaranty Program has resulted from the implementation of the newly-enacted section 1830 of title 38, United States Code, which was also part of the Deficit Reduction Act of 1984. The law authorizes VA to bring suit in court to foreclose loans made or acquired by the Administrator. The law provides that this may be done by VA attorneys or on a fee basis.

Section 1830 recognizes that the Attorney General has primary responsibility for supervising all litigation involving the Federal Government and provides that attorneys acting under that section are "subject to the direction and supervision of the Attorney General and to such terms and conditions as the Attorney General may prescribe." The statute further provides that VA may use fee attorneys only "with the concurrence of the Attorney General."

VA may not unilaterally act to implement this new authority. Rather, we must await guidelines to be issued by the Department of Justice. Shortly after the enactment of the Deficit Reduction Act of 1984, the Office of General Counsel of VA met with the staff of the Civil Division of the Department of Justice to discuss the implementation of this new authority. A Memorandum of Understanding, to be signed by appropriate officials of the two agencies, has been signed by the Department of Justice and will be signed soon by the VA.

In order to prepare to assume this new responsibility, VA held a training conference December 10-12, 1984. One attorney from each VA field office came to Washington for this session. We had speakers from the Department of Justice, United States Attorneys' Offices, private practice, and the United States Marshal's Office, as well as VA staff.

We believe VA will be ready to begin handling foreclosures shortly.

Another change brought about by the Deficit Reduction Act that I would like to highlight, Mr. Chairman, are those modifications with respect to the loan funding fee that is collected in connection with VA home and manufactured home loans. The amount of the fee has been raised from one-half of one percent to one percent. The effect of an increase of this size on a veteran's ability to obtain financing has been minimal. The amount of the fee may still be included in the veteran's loan and paid to the Administrator from the loan proceeds, thus spreading out its payment over the life of the mortgage. With the enactment of Public Law 98-369, the one percent fee is also collected on vendee loans which are purchase money mortgages made by the VA to finance the sale of VA acquired properties. Under the new law, the fees are now deposited directly into the Loan Guaranty Revolving Fund which is used to honor VA's liability under the guaranty agreement and to acquire properties as required by law. Since July 18, 1984, when the law was enacted, $49.6 million has been deposited in the Loan Guaranty Revolving Fund.

Public Law 98-369 also made changes to our Property Management program which I will discuss later in this statement.

A potentially far-reaching change in the Loan Guaranty program was the enactment of Public Law 98-223, the Veteran's Compensation and Program Improvements Amendments of 1984. Certain manufactured home loans that were previously guaranteed under 38 U.S.C. 1819 may now, under the new authority granted to the

Administrator by this legislation, be guaranteed under the provisions of 38 U.S.C. 1810. Manufactured home loans now covered under 38 U.S.C. 1810 must be secured by a manufactured home that is permanently situated on land owned by the veteran and that is considered to be real property, instead of personal property, in the State where it is located. Loans guaranteed under 38 U.S.C 1810 may have longer terms and lower interest rates than those guaranteed under 38 U.S.C. 1819.

Public Law 98-223 also expanded section 1802(b)(2) of title 38, United States Code with respect to the restoration of a veteran's home loan entitlement upon substitution of another veteran's entitlement. The legislation eliminates the requirement that the substituting veteran be the "immediate-transferee" of the property.

Public Law 98-543, the Veterans' Benefits Improvement Act of 1984, increased the maximum amount of specially adapted housing assistance payable under 38 U.S.C. 801(b) from $5,000 to $6,000 for service-connected disabled veterans who are blind or have lost, or lost the use of, both hands. The Specially Adapted Housing Grant payable under 38 U.S.C. 801(a) was increased from $32,500 to $35,500.

Mr. Chairman, you requested the VA's views on H.R. 1516. This bill would amend section 801(b) of title 38, United States Code, which currently provides assistance to veterans who are blind, or have lost or lost the use of both hands, in adapting their homes to the nature of their disability. The proposed amendment would authorize the Administrator to provide assistance to veterans with these disabilities who are acquiring a residence already adapted with the necessary special features.

Section 801(b) of title 38, United States Code, provides a limited benefit to veterans who have total and permanent service-connected blindness, or the anatomical loss or loss of use of both hands. These veterans may receive a one-time grant, not to exceed $6,000, to cover the actual costs of adaptations to their residences which may be reasonably necessary because of their disabilities. The grant funds may not be used to pay for anything but the actual adaptations. Thus, no grant can be given to veterans eligible under section 801(b) who purchase homes that are already adapted. H.R. 1516 would authorize such assistance.

The Veterans Administration believes that specially adapted housing benefits should be made available to those veterans whose disabilities are such as to make it difficult, or impossible, for them to live in comfort in a conventional home. The inclusion in the benefits program under section 801(b) of veterans who choose to acquire housing with special features already in place appears to be a logical extension of the program.

As we have noted, the grant authorized by section 801(b) is based upon the actual cost of the adaptations made. Since no adaptations would actually be made in the case of veterans acquiring homes which already have the required special features, there would be no basis for VA to actually pay the benefit contemplated by H.R. 1516. Accordingly, we would recommend that the bill be amended to provide that in the case of a veteran acquiring a residence already adapted with special features, the grant will be based upon the fair market value of the adaptations. With this amendment, VA favors enactment of H.R. 1516.

## LOAN DEFAULTS: SERVICING DELINQUENT LOANS

Mr. Chairman, we are continuing to experience a large number of GI loan defaults. During Fiscal Year 1984, new defaults averaged 13,199 per month, compared with 13,564 in Fiscal Year 1983. New defaults have averaged 13,540 per month for the first five months of Fiscal Year 1985. Defaults reported appear to be remaining stable at relatively high levels.

Although the holder of a GI loan has the primary responsibility for servicing the delinquent loan in default, it is VA policy that no GI loan should be foreclosed or otherwise terminated unless such action is absolutely justified. Consequently, when a new default is reported to VA, our regional offices promptly attempt to contact the borrower by letter, mailgram, telephone, and through field visits to the property. In view of the continuing high rate of defaults, we have regularly emphasized to our field stations the importance of personally contacting delinquent veterans in order to assist them to reinstate their loans and retain their homes if at all possible.

To further aid in our efforts to assist delinquent veterans, we are moving ahead with plans to provide direct on line access to GI loan records. When implemented, up-to-date loan data on individual default cases will be available in seconds via display terminals. The full implementation target date for loan servicing purposes is December 1986. This will enable loan guaranty personnel to service defaults without references to loan folders and respond quickly to inquires from veteran borrowers. Other anticipated benefits include reduction in the flow of papers, and files and improvement in the quality and timeless of data input. Rapid access to the data base will also enable Central Office to closely monitor the operations of our Field Stations.

## PROPERTY MANAGEMENT

We have implemented two provisions of the Deficit Reduction Act of 1984 that impact on our property management program: one, the requirement that VA charge a 1 percent funding fee on vendee loans, which I previously discussed; and, secondly the requirement that at least 25 percent of our properties be sold for cash during FY's 85, 86, 87.

During the current fiscal year we have continued to increase the percentage of cash sales. Our percentage Fiscal Year to date is 21.46 percent. We are confident that, as program participants become more aware of our sales incentives introduced during 1984 for cash sales, we will be able to meet and probably exceed the 25 percent cash sales requirement.

We have taken several steps to promote cash sales as well as overall sales. Continued emphasis on these program changes should help us to accelerate the downward trend in our inventory during 1985.

- In April and May, we sent a Property Management Task Force to seven of our field stations which then had almost 50 percent of our inventory. The Task Force met with both private sector brokers and field station staffs to focus attention on property sales. We have seen a marked improvement in sales at those stations.

- Reasonable offers--below stated list prices--are now invited on all properties on the market for more than 6 months, in order to promote a bargaining type atmosphere on our older inventory properties.

- Sales commission bonuses of up to $500 are offered on older- and lower-priced properties, in order to focus more broker attention on these hard-to-sell properties.

- Discounts of 10 percent off the list price are offered to purchasers who pay all cash.

- We pay reasonable loan discount points where outside financing requires it.

- We held a test auction of 200 hard-to-sell properties in Detroit in October. It was the largest real estate auction in Michigan history. We are going forward to use this technique during 1985 in other locations where we have difficult inventory problems.

Mr. Chairman, this concludes my statement. I will be pleased to respond to any questions that you or Members of the Subcommittee may have.

Mortgage Bankers Association of America

Burton C. Wood
Senior Staff Vice President
and Legislative Counsel

[illegible]

May 1, 1985

The Honorable Richard C. Shelby
Chairman
Subcommittee on Housing and Memorial Affairs
Committee on Veterans' Affairs
U. S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The statement submitted by MBA in connection with hearings before you on April 18, 1985 contains an error that we wish to call to your attention and that we request be corrected for the record.

On page 10, third paragraph, the median price of existing homes sold in 1984 is given as $78,200. The correct figure is $72,800 as is indicated in the Exhibit accompanying this paragraph. The substance of the paragraph would remain unaffected by this correction.

During the course of the hearing, a member of the Subcommittee requested that MBA furnish for the record, the number of claims paid by the Veterans Administration in recent years. MBA has obtained these statistics from the Veterans Administration, and they are set forth in the attached chart.

Thank you for your kind attention and allowing MBA to appear at the hearings.

Sincerely,

BCW:amk

CLAIMS VOUCHERED FOR PAYMENT OF VA GUARANTEED HOME LOANS
WITH RATIOS TO LOANS CLOSED AND LOANS OUTSTANDING BY CALENDAR YEAR

| Calendar year | Cumulative number of loans guaranteed at end of year | Cumulative number of claims paid at end of year | Cumulative claims paid as a percent of loans guaranteed | Number loans outstanding at end of year | Claims paid during year | Claims paid during year as a percent of loans outstanding EOY |
|---|---|---|---|---|---|---|
| 1950 | 2,120,461 | 9,981 | .47 | 1,958,215 | 4,455 | .23 |
| 1951 | 2,567,836 | 12,586 | .49 | 2,323,892 | 2,603 | .11 |
| 1952 | 2,871,302 | 15,177 | .53 | 2,523,387 | 2,571 | .10 |
| 1953 | 3,190,355 | 17,615 | .55 | 2,723,806 | 2,458 | .09 |
| 1954 | 3,603,101 | 20,449 | .57 | 3,099,178 | 2,834 | .09 |
| 1955 | 4,256,573 | 24,168 | .57 | 3,441,453 | 3,719 | .11 |
| 1956 | 4,764,013 | 29,442 | .62 | 3,759,784 | 5,274 | .14 |
| 1957 | 5,070,450 | 36,148 | .71 | 3,906,536 | 6,706 | .17 |
| 1958 | 5,236,324 | 45,185 | .87 | 3,870,730 | 9,037 | .23 |
| 1959 | 5,429,607 | 55,828 | 1.03 | 3,859,235 | 10,643 | .28 |
| 1960 | 5,574,492 | 66,880 | 1.20 | 3,829,107 | 11,052 | .29 |
| 1961 | 5,709,007 | 82,940 | 1.45 | 3,761,191 | 16,060 | .43 |
| 1962 | 5,897,367 | 104,800 | 1.78 | 3,714,574 | 21,860 | .59 |
| 1963 | 6,106,038 | 128,281 | 2.10 | 3,658,980 | 23,176 | .63 |
| 1964 | 6,294,232 | 152,760 | 2.43 | 3,585,943 | 24,478 | .68 |
| 1965 | 6,457,651 | 175,915 | 2.72 | 3,508,558 | 23,145 | .66 |
| 1966 | 6,614,984 | 198,600 | 3.00 | 3,440,291 | 22,685 | .66 |
| 1967 | 6,815,830 | 217,258 | 3.19 | 3,452,313 | 18,658 | .54 |
| 1968 | 7,026,855 | 231,996 | 3.30 | 3,479,879 | 14,739 | .42 |
| 1969 | 7,240,795 | 243,088 | 3.36 | 3,530,340 | 11,092 | .31 |
| 1970 | 7,376,065 | 253,532 | 3.44 | 3,562,723 | 10,444 | .29 |
| 1971 | 7,650,341 | 264,025 | 3.45 | 3,663,812 | 10,511 | .29 |
| 1972 | 8,029,366 | 276,284 | 3.44 | 3,799,544 | 12,258 | .32 |
| 1973 | 8,343,875 | 292,036 | 3.50 | 3,695,038 | 15,800 | .43 |
| 1974 | 8,651,705 | 307,036 | 3.55 | 3,807,902 | 14,948 | .39 |
| 1975 | 8,953,471 | 322,668 | 3.60 | 3,890,839 | 15,711 | .40 |
| 1976 | 9,282,119 | 337,907 | 3.64 | 3,906,136 | 15,239 | .39 |
| 1977 | 9,672,968 | 352,733 | 3.64 | 3,955,256 | 14,826 | .37 |
| 1978 | 10,032,988 | 366,403 | 3.65 | 3,965,221 | 13,670 | .34 |
| 1979 | 10,387,556 | 378,329 | 3.64 | 4,028,260 | 11,926 | .29 |
| 1980 | 10,671,093 | 388,605 | 3.64 | 4,072,452 | 10,276 | .25 |
| 1981 | 10,819,272 | 401,656 | 3.71 | 4,052,636 | 13,051 | .32 |
| 1982 | 10,911,012 | 417,862 | 3.83 | 4,031,912 | 16,206 | .40 |
| 1983 | 11,199,878 | 439,839 | 3.93 | 4,138,645 | 21,977 | .53 |
| 1984 | 11,420,190 | 465,022 | 4.07 | 4,153,776 | 25,183 | .61 |

NOTE: Includes refinancing and condominium loans. Excludes Mobile Home Loans.
SOURCE: Veterans Administration, Program Management Services, Loan Guaranty Department.

# STATEMENT OF

## ROBERT J. SPILLER

CHAIRMAN AND CHIEF EXECUTIVE OFFICER
THE BOSTON FIVE CENTS SAVINGS BANK
BOSTON, MASSACHUSETTS

on behalf
of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

Oversight Hearings on

The Veterans Administration Home Loan Guaranty Program

April 18, 1985

Mr. Chairman and members of the Committee, my name is Robert J. Spiller. I am Chairman and Chief Executive Officer of the Boston Five Cents Savings Bank, Boston Massachusetts. I am also President of the Mortgage Bankers Association of America.* Accompanying me are Burton C. Wood, MBA's Legislative Counsel, and William E. Cumberland, MBA's General Counsel.

MBA appreciates the opportunity to appear before you today to testify on the Veterans Administration (VA) home loan guaranty program. We last appeared before you to discuss the President's 1986 Budget, and to urge you to reject the President's proposal to impose a 5 percent fee on the program. MBA applauds the action of this subcommittee and the rest of the Committee on Veteran's Affairs in reporting to the House Budget Committee that you are opposed to further fees being imposed on veterans who want to buy a home. We urge you to follow through as the budget process goes on. The Senate Budget Committee is recommending additional fees for the VA home loan program. We urge you to speak and act in the House to avoid and defeat the proposal for additional fees on the home loan guaranty program.

---

*The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of mortgage and real estate finance. MBA's membership comprises mortgage originators, mortgage investors, and a variety of industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, financing, selling, and servicing real estate investment portfolios. Members include:

- Mortgage Banking Companies
- Mortgage Insurance Companies
- Life Insurance Companies
- Commercial Banks
- Mutual Savings Banks
- Savings and Loan Associations
- Mortgage Brokers
- Title Companies
- State Housing Agencies
- Investment Bankers
- Real Estate Investment Trusts

MBA headquarters is located at 1125 15th Street, N.W., Washington, D.C. 20005; telephone: (202) 861-6500.

MBA believes that the VA home loan guaranty program is an excellent one and that the VA has operated the program well. The current VA projection that it might need appropriated funds to carry on the home loan guaranty program has caused a close examination of the program to be appropriate. The program is not perfect, and it can be improved, but the performance of the program confirms that it is being operated consistent with the mortgage markets.

MBA has recently created a special task force of mortgage bankers who are active in providing private capital to fund the VA home loan guaranty program. This task force is working jointly with the VA to assist the VA in adapting the home loan guaranty program to current economic conditions of a relatively low rate of inflation of sales prices for homes.

In addition, MBA is cooperating with the American Legion, the Vietnam Veterans of America, and other veterans' organizations to explore adjustments in the home loan guaranty program that would improve its efficiency.

We are hopeful that these joint efforts, along with the passage through the system of the adverse effects of underwriting in the early 1980s, which can now be recognized as overly optimistic, will result in a healthy and effective VA home loan guaranty program in the forseeable future to serve the veterans of Vietnam and other conflicts.

There are some adjustments that we believe should be made to the home loan guaranty program. The VA should be authorized to guarantee adjustable rate mortgages (ARMs) with such limits, if any, as the Administrator deems necessary. The program should accept mortgage interest rates that are negotiated between borrower and lender, and not limited to interest rates that are administratively set. And, with respect to vendee loans, the Administration should be freed to make the best deal possible when selling properties acquired by the VA in the program. However, increasing the number of cases in which the VA refuses to acquire title to property after default is not a favorable adjustment.

Mortgage bankers are proud of the fact that they have participated in making a program work that has helped 11.5 million American veterans become homeowners.

We appreciate your concern, Mr. Chairman and members of the Committee, that the program continue to be operated in the most effective way possible.

## OPERATION OF THE VA HOME LOAN GUARANTY PROGRAM

The VA home loan guaranty program is an entitlement program established under the Serviceman's Readjustment Act of 1944. The program's purpose is to assist qualified veterans to achieve homeownership. The program provides two primary benefits to qualified veterans. First, the VA guarantees a portion of the veteran's mortgage principal. The amount of this guaranty has varied over the years and is now 60 percent of the loan amount, up to a maximum of $27,500. With this guaranty available, mortgage lenders are able to provide veterans purchasing homes with financing at a lower rate than is available when the program is not available. The second benefit offered by the program is the stipulation that no downpayment need be required by the lender. A loan with no downpayment is a "100 percent loan" because the loan amount is 100 percent of the value of the property. On an annual basis from 1977 to 1984, between 58 percent and 70 percent of VA-guaranteed loans closed were 100 percent loans. (See Exhibit 1.)

Since the VA initiated its program in 1944 until the end of 1984, 11.5 million loans have been guaranteed under the VA home loan guaranty program. The vast majority of those loans have cost taxpayers only the administrative cost of processing the initial approval. Only four percent of those loans have resulted in foreclosure. The foreclosure rate for VA-guaranteed loans has increased somewhat in the past two years following the severe recession that gripped the U.S. economy and the historically high unemployment rates that resulted (Exhibit 2 and Exhibit 3).

The budgetary mechanism for the Loan Guaranty Program is the Loan Guaranty Revolving Fund (LGRF). The fund was established to balance the income and expenses caused by the operation of the program. Income for the fund is derived primarily through the sale of "vendee" loans. Vendee loans are loans made by the VA to a borrower when a VA-acquired property is sold. Expenses accrued by the LGRF are predominantly from the acquisition of foreclosed properties.

Historically, when the LGRF was in a deficit position, the VA transferred money from its Direct Loan Revolving Fund (DLRF). The DLRF exists as a result of a former VA policy to make direct loans to veterans who live in credit-short areas and can find no other lender to make a VA-guaranteed loan. In such instances, the VA acted as a lender and the earnings on the direct loans provided the VA with a surplus in the DLRF.

Four years ago, the VA was instructed by the Administration to make no more direct loans. Consequently, the net earnings of the DLRF is diminishing. Thus, at a time when the LGRF is experiencing great cash demands due to the recent recession and ensuing increased foreclosures, the DLRF is in its most illiquid position.

## The VA Home Loan Program Has Performed Consistently With The Market

A dramatic consequence of the reduction of the DLRF's ability to provide funding for the LGRF has been to make it appear that the loan guaranty program is experiencing losses beyond expectations and beyond comparable mortgage programs. In fact, the change in the VA home loan guaranty program foreclosure and claim rate actually has been better, relatively, than the increase in foreclosures of conventional loans, which are loans that are not insured or guaranteed by the government (Exhibit 4). And compared with the FHA, while VA guaranteed loans have had slightly more growth in their foreclosure rate than FHA-insured mortgages since the mid 1970s, the relative relationship has remained substantially constant (Exhibit 5). These relative relationships suggest that the VA program is inherently sound and being operated consistent with the mortgage programs of the FHA and conventional lenders.

## Restorations

The only significant aberration that MBA has noted in the recent foreclosure statistics of the VA home loan guaranty program is those for restoration loans. Restoration loans are those guaranteed by the VA pursuant to a restoration of entitlement to a veteran who has paid off (or had another eligible veteran assume) an earlier loan guaranteed by the VA.

While the proportion of VA guaranteed restoration loans remained substantially constant from 1978 to 1983 at 11 percent of loans guaranteed, the proportion of claims for restoration loans has risen steadily from 1.3 percent of total claims to 7.9 percent from 1978 to 1984 (Exhibit 6 and Exhibit 7). The information available does not yet provide an explanation of this disproportionate increase, but further study is suggested.

## Improvements Can Be Made

At the suggestion of the VA Administrator, Harry Walters, MBA has created a special ad hoc task force to work in cooperation with the VA to make recommendations to the VA for improvements to the program to reduce losses. The task force held its initital meeting on March 12, 1985. From that meeting, several suggestions have already emerged. One suggestion is that a copy of the appraisal of the house that will secure the VA guaranteed loan be furnished to the lender. Currently, the lender receives only a CRV (Certificate of Reasonable Value), which does not set forth the steps of the analysis made by the VA selected appraiser. This proposal would allow lenders to review the procedures followed by appraisers in each case. Another suggestion is that the VA should systematically monitor the appraisers who evaluated properties involved in subsequent foreclosures, to ascertain whether certain appraisers have a disproportionate inaccuracy rate, and should be removed from the VA-approved appraiser panel.

Other suggestions include an expedited review by the VA of offers of deed-in-lieu of foreclosure in order to prevent unpaid interest running, while these cases are under study, and an agreement by the VA not to charge lenders for interest that accrues during a formal forebearance agreement. Under this last proposal, if a lender allows a veteran to remain in the home while stretching out payments, the unpaid interest will not be permitted to cause the case to become a "no bid" case, in which the lender would be required to accept a payment of the claim and dispose of the property because the accumulated unpaid interest had made the case one where the VA would economically be better off not accepting title to the property.

## Increased Refusal to Accept Title to Property is Not Helpful

In its FY 1985 Budget proposal, the Administration proposed that the VA should pay in full the claims under the VA home loan guaranty program, and leave with the lender the responsibility of disposing of the property securing the guaranteed loan. This recommendation, while rejected by Congress, has not been acknowledged as abandoned by the Administration, and so, must be addressed. The recommendation apparently rested on the assumption that, if the VA ceases to acquire foreclosed properties, there will be an enormous apparent cost savings to the government.

The VA will not save money by paying the lender the guaranty amount in all foreclosure cases. When the past experience of the VA is examined, it is clear that, since 1979, the average loss on properties acquired and subsequently sold is about $10,000 less than if the VA had paid the average guaranty on those properties (Exhibit 8). The proposed change would cause a greater drain on VA finances than the current policy because VA's cash inflow will be diminished once the current inventory of properties is liquidated.

## Effect on Lenders and Veterans

The change in the VA guaranty settlement policy not yet abandoned by the Administration affects both VA lenders and veterans themselves.

As a group, mortgage bankers make about three-quarters of all VA-guaranteed loans, more than any other category of lenders (Exhibit 9). Thus, mortgage bankers would be affected more than other lenders by the change in VA policy. The impact will affect certain aspects of a lender's business, as well as the lender's perception of the risk potential of a VA-guaranteed loan.

One of the major assumptions made by the Administration is that, if the VA does not acquire a property by entering a bid to do so, there will be a third party who will acquire the property from the lender. By making this assumption, the Administration sidesteps the issue of a lender being left holding title to property. The assumption that a third party buyer would come forward assumes a perfect market. There may be a prospective buyer in the market for the foreclosed property at a price near or below what the VA would have bid. The problem is that foreclosure sales require ready cash and information not available to most buyers.

A more realistic scenario is that, if the VA enters no bid, in only a small percentage of cases will a third party take title to the property. The majority of foreclosures will result in the lender taking title to the property and being responsible for maintenance, renovation, marketing, and eventual sale of the property.

The vast majority of lenders, especially small mortgage bankers, are not capitalized to deal with property disposition. In order to complete the transfer quickly and efficiently, lenders would be forced either to develop property disposition centers or turn to others who, for a fee, would handle the property disposition. Either approach would put lenders, especially the smaller ones, under great financial strain. Needless to say, it would also make VA-guaranteed loans less attractive to lenders and increase the cost of mortgage credit to veteran borrowers. Vietnam era veterans, who are still entering the housing markets as first-time homebuyers, would perhaps be particularly hard hit by this proposed change.

VA-guaranteed loans would likely be perceived as carrying a much larger share of risk to lenders in the mortgage markets. Lenders would then begin to apply more stringent underwriting procedures to applications of prospective VA borrowers, and a higher yield would be required in the market to compensate investors for the additional risk they are accepting by purchasing a VA-guaranteed loan.

By continuing to pursue this policy change, the Administration would be creating an atmosphere in which veterans with VA-guaranteed loans will be second class citizens.

## VENDEE LOANS

The President's budget for FY 1985 indicated that the VA would discontinue selling vendee loans with recourse. MBA opposed that proposed change in current practice. Sale of vendee loans without recourse shifts the credit risk of default from the VA to private purchasers, and purchasers necessarily adjust their purchase prices accordingly. Because of its size, and because it is the lender, the Government is a more efficient manager of vendee loan credit risk than any private buyer can be. Therefore, it can be expected that the reduction in the sales price paid by the private industry buyers of vendee loans will be greater than the savings the Government might realize by transferring the risk of default. In the Deficit Reduction Act of 1984 (PL 98-369), a target of the proportion vendee loans was set for the VA. MBA urges that the quota concept be removed, and that the VA be allowed to use guaranteed vendee loans as fully as it deems economically advantageous in selling property acquired in the home loan guaranty program.

## INCREASE IN GUARANTY MAXIMUM

MBA supports the proposal included in S 9, a bill introduced by Senator Byrd on behalf of Senator Cranston, to increase the maximum amount of the VA loan guaranty from $27,500 to $35,000 for home loans and from $20,000 to $22,000 for manufactured housing loans. Such an increase would bring the relationship between the level of the guaranty amount and the ever increasing cost of new and existing housing closer to historical ratios.

From 1974 to 1984, the median price of new single-family homes sold jumped from $35,900 to $79,900, an increase of 123 percent. Had the VA maximum guaranty been adjusted annually in equal proportion to the increase in new home prices, the 1984 guaranty would have reached $39,000 (Exhibit 10 and Exhibit 11).

The median price of existing single-family homes sold increased over 120 percent during the period 1974 through 1984, from $32,000 in 1974 to 78,200 in 1984. Adjusting the VA maximum guaranty for annual increases in existing home prices for this period would have resulted in a maximum guaranty of over 39,800 in 1984 (Exhibit 10 and Exhibit 11).

## FREE VA INTEREST RATE

Under current law, the maximum interest rate allowable on a mortgage guaranteed by the VA is fixed by the VA Administrator. MBA has consistently urged that the law be amended to allow interest rates to be determined by the market.

## ADJUSTABLE RATE MORTGAGE

MBA urges that the VA be authorized to include adjustable rate mortgages (ARMs) in the home loan guaranty program. During the past three years, ARMs have become accepted by borrowers in the conventional mortgage market. FHA has expanded its insurance program to include ARMs. These markets have demonstrated that ARMs are a beneficial development that permits borrowers and lenders to tailor transactions to the needs of borrowers. Borrowers who do not want to pay for the predictability of a fixed rate mortgage can achieve the lower interest rates that lenders can offer when the borrower bears some of the risk of inflation or other economic conditions that cause rates generally to rise.

In his bill, S 9, Senator Cranston has proposed authorizing the VA to guarantee ARMs. To the extent that the measure would accomplish this purpose, MBA supports the bill. However, S 9 would limit the ability of borrowers and lenders to reach the best arrangement between them because adjustments in interest rates provided in VA guaranteed mortgages would be subject to four limits or "caps" enumerated in the bill.

MBA is opposed to statutory caps on ARMs. Adjustments should be freely negotiated, just as traditional long-term fixed rate mortgage interest rates should be. At the most, authority could be left with the Administrator of the VA to set caps for ARMs in the home loan program as the program and the veterans it benefits gain experience with ARMs.

Experience with the FHA insurance program caps of one percent per annum increase, which would be placed on VA ARMs by S 9, is that investors in the market are not attracted.

Whatever may have been the case previously, ARMs are no longer an untested and unknown quantity. Approximately 53 percent of new conventional mortgages originated in the last quarter of 1983 were ARMs, and the percentage has risen to 57 percent by the last quarter of 1984. (Federal Home Loan Bank Board, "Conventional Home Mortgage Rates," February 4, 1985.)

## CONSOLIDATION OF FUNCTIONS

In the President's FY 1986 Budget, the VA has announced its intention to consolidate and centralize at three sites over 1986-1988, "those functions that are performed without need for direct contact with veterans." These services are now performed at 59 regional offices. The Budget indicates that processing of applications for guarantees of home mortgages will be one of the functions to be consolidated.

A drastic consolidation of the VA loan guaranty offices will interfere with the way in which the VA home loan guaranty program has worked so well to the benefit of the veteran. The current VA program places great emphasis on personal contact between the mortgage lender, VA, and the veteran. For instance, during the loan application process, VA works closely with the lender to determine whether the veteran can qualify for the loan and whether the sales price accurately reflects the appraised value of the property. It is not uncommon to have numerous contacts between VA and the lender to solve problems relating to required documentation or other such problems that may arise during the application and appraisal process. Proximity between the VA and lender offices is an essential ingredient to the efficient flow of work and speed in processing loan applications. VA regulations also require a local fee appraiser to be appointed to determine the appraised value of the property prior to VA's granting a Certificate of Reasonable Value (CRV). It is extremely important for loan guaranty personnel to be familiar with local market conditions in order to analyze the appraisal report and underwrite the loan.

Oftentimes, problems will occur in the appraisal or an appeal will be filed requiring a second appraisal on the property. Again, proximity to the property and appraiser will help the VA deal expeditiously and efficiently with the situation.

The Veterans' Administration also provides a supplemental servicing program whereby personnel from the loan guaranty office will personally visit veterans whose loans are in default, and provide counseling. This service, which is handled on a local level by loan guaranty personnel, saves VA a considerable amount of money in claims. This service would not be nearly as efficient if consolidation of offices removes the personal contact between the VA and the veteran. As is true of most financial transactions, time is money. In a mortgage transaction, the borrower may suffer as much as the lender in the event of processing delays. In periods of volatile markets, which seem to have become the normal business environment, frequent yield shifts between the time the veteran makes an application for a loan and the time in which a loan is closed expose the veteran to the possibilities of increased interest rates. If, during that period, market conditions require the VA to increase the maximum allowable interest rate, the veteran's application that is in process will be assigned the higher interest rate. Obviously, the longer the processing time, the greater the exposure to market fluctuations and increased rates.

Section 601(B) of the "Veterans' Disability Compensation, Housing, and Memorial Benefits Amendments of 1981" (PL 97-66) requires the VA to submit to "the appropriate committees of Congress a report containing a detailed plan and justification" for an administrative reorganization such as is noted in the President's Budget. This legislation was enacted in response to a 1981 proposal to consolidate the 59 VA regional offices into three.

In 1981, MBA acknowledged that the workload in some regional offices may not be great enough to justify a fully staffed loan processing and claims operation. We supported the requirement that a study be conducted of the workload of each VA field office to determine which offices could be consolidated with as little impact as possible on VA's capability to administer the loan guaranty program properly. To date, that study has not been furnished to Congress. The VA should not be allowed to carry out its proposed consolidation until the detailed plan and justification has been timely submitted to Congress with an opportunity for its review.

We appreciate the opportunity to appear before the Committee, and we would be pleased to furnish any additional information that may be needed.

Table to Accompany Statement of Robert J. Spiller
Mortgage Bankers Association of America, April 18, 1985

**EXHIBIT 1**

## VA HOME LOAN GUARANTY PROGRAM ACITIVITY
## PRIMARY HOME LOANS CLOSED

### Total 1/

| | Number | Loan Amount ($Mil) | Average Loan Amount | Average Purchase Price | Avg. Loan to Value Ratio |
|---|---|---|---|---|---|
| 1977 | 371,610 | 13,260 | $35,683 | $36,982 | 96.5 |
| 1978 | 352,797 | 13,959 | $39,567 | $41,079 | 96.3 |
| 1979 | 345,708 | 15,991 | $46,256 | $48,555 | 95.3 |
| 1980 | 255,631 | 13,257 | $51,860 | $55,092 | 94.1 |
| 1981 | 136,027 | 7,543 | $55,452 | $58,833 | 94.3 |
| 1982 | 87,027 | 5,053 | $58,062 | $63,112 | 92.0 |
| 1983 | 227,155 | 14,092 | $62,037 | $66,723 | 93.0 |
| 1984 | 181,771 | 11,633 | $63,998 | $67,584 | 94.7 |

1/ Loans for refinancing not included.

### 100% Loans

| | Number | Percent of Total Number | Loan Amount ($Mil) | Average Loan Amount |
|---|---|---|---|---|
| 1977 | 259,509 | 69.83 | 8,817 | $33,975 |
| 1978 | 244,458 | 69.29 | 9,091 | $37,188 |
| 1979 | 234,810 | 67.92 | 10,260 | $43,695 |
| 1980 | 169,839 | 66.44 | 8,195 | $48,254 |
| 1981 | 89,758 | 65.99 | 4,569 | $50,901 |
| 1982 | 50,285 | 57.78 | 2,629 | $52,284 |
| 1983 | 137,315 | 60.45 | 7,868 | $57,299 |
| 1984 | 118,218 | 65.04 | 7,042 | $59,564 |

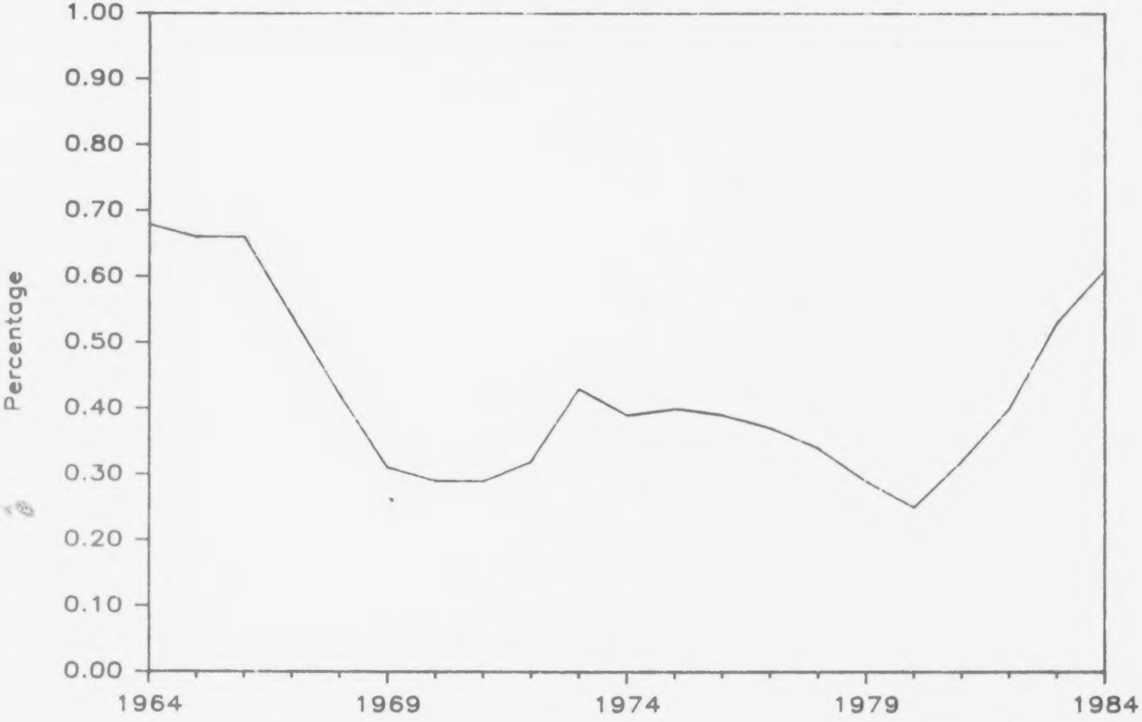
Source: Program Management Service, Loan Guaranty Department of the Veterans Administration.

Prepared by Mortgage Bankers Association of America, Economics Department, April 1985.

Table to Accompany Statement of Robert J. Spiller
Mortgage Bankers Association of America, April 18, 1985

**EXHIBIT 2**

### VA CLAIMS PAID DURING YEAR AS A PERCENT OF VA LOANS OUTSTANDING END OF YEAR



Source: Veterans Administration, Loan Guaranty Department

Prepared by the Mortgage Bankers Association of America, Economics Department, April 18, 1985

Table to Accompany Statement of Robert J. Spiller
Mortgage Bankers Association of America, April 18, 1985

**EXHIBIT 3**

## FORECLOSURES STARTED
### (Percent of Number of Loans Serviced)

| | VA | FHA | CONVENTIONAL |
|---|---|---|---|
| 1979 | .70 | .78 | .25 |
| 1980 | .70 | .74 | .31 |
| 1981 | .72 | .83 | .42 |
| 1982 | .92 | 1.07 | .53 |
| 1983 | .97 | 1.03 | .63 |
| 1984 | .95 | 1.03 | .63 |

Source: National Delinquency Survey, Mortgage Bankers Association of America, February 1985.

## FORECLOSURES COMPLETED
### (Percent of Number of Loans Outstanding)

| | VA 1/ | FHA 2/ | CONVENTIONAL 3/ |
|---|---|---|---|
| 1979 | .30 | .48 | .09 |
| 1980 | .25 | .41 | .12 |
| 1981 | .32 | .40 | .18 |
| 1982 | .40 | .46 | .33 |
| 1983 | .53 | .67 | .41 |
| 1984 | .61 | .75 | NA |

Sources:
1/ Veterans Administration
2/ Federal Housing Administration
3/ Federal Home Loan Bank Board. Note: Includes all conventional mortgage loans.

Prepared by the Mortgage Bankers Association of America, Economics Department, April 1985.

Table to Accompany Statement of Robert J. Spiller
Mortgage Bankers Association of America, April 18, 1985

**EXHIBIT 4**

## NUMBER OF FORECLOSURES STARTED DURING QUARTER AS A PERCENT OF NUMBER OF LOANS SERVICED FOR 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS

| Yr. Qtr. | VA | FHA | Conv. |
|---|---|---|---|
| 1973.1 | 0.18 | 0.43 | 0.05 |
| 1973.2 | 0.19 | 0.41 | 0.05 |
| 1973.3 | 0.19 | 0.40 | 0.06 |
| 1973.4 | 0.18 | 0.40 | 0.07 |
| 1974.1 | 0.18 | 0.37 | 0.08 |
| 1974.2 | 0.17 | 0.38 | 0.06 |
| 1974.3 | 0.19 | 0.37 | 0.08 |
| 1974.4 | 0.20 | 0.38 | 0.09 |
| 1975.1 | 0.21 | 0.33 | 0.10 |
| 1975.2 | 0.23 | 0.34 | 0.10 |
| 1975.3 | 0.21 | 0.31 | 0.09 |
| 1975.4 | 0.19 | 0.26 | 0.09 |
| 1976.1 | 0.18 | 0.24 | 0.07 |
| 1976.2 | 0.19 | 0.20 | 0.08 |
| 1976.3 | 0.19 | 0.21 | 0.08 |
| 1976.4 | 0.20 | 0.24 | 0.09 |
| 1977.1 | 0.22 | 0.24 | 0.08 |
| 1977.2 | 0.21 | 0.23 | 0.08 |
| 1977.3 | 0.20 | 0.22 | 0.07 |
| 1977.4 | 0.19 | 0.20 | 0.07 |
| 1978.1 | 0.19 | 0.21 | 0.06 |
| 1978.2 | 0.18 | 0.22 | 0.06 |
| 1978.3 | 0.20 | 0.21 | 0.06 |
| 1978.4 | 0.20 | 0.22 | 0.07 |
| 1979.1 | 0.19 | 0.22 | 0.07 |
| 1979.2 | 0.17 | 0.19 | 0.06 |
| 1979.3 | 0.15 | 0.16 | 0.06 |
| 1979.4 | 0.19 | 0.21 | 0.06 |
| 1980.1 | 0.16 | 0.16 | 0.07 |
| 1980.2 | 0.17 | 0.18 | 0.07 |
| 1980.3 | 0.19 | 0.20 | 0.08 |
| 1980.4 | 0.19 | 0.21 | 0.09 |
| 1981.1 | 0.18 | 0.20 | 0.09 |
| 1981.2 | 0.19 | 0.22 | 0.10 |
| 1981.3 | 0.17 | 0.19 | 0.11 |
| 1981.4 | 0.19 | 0.21 | 0.11 |
| 1982.1 | 0.22 | 0.25 | 0.13 |
| 1982.2 | 0.22 | 0.25 | 0.12 |
| 1982.3 | 0.24 | 0.28 | 0.14 |
| 1982.4 | 0.24 | 0.29 | 0.14 |
| 1983.1 | 0.23 | 0.25 | 0.14 |
| 1983.2 | 0.26 | 0.28 | 0.16 |
| 1983.3 | 0.24 | 0.26 | 0.16 |
| 1983.4 | 0.24 | 0.24 | 0.17 |
| 1984.1 | 0.23 | 0.23 | 0.13 |
| 1984.2 | 0.24 | 0.25 | 0.16 |
| 1984.3 | 0.27 | 0.30 | 0.19 |
| 1984.4 | 0.21 | 0.25 | 0.15 |

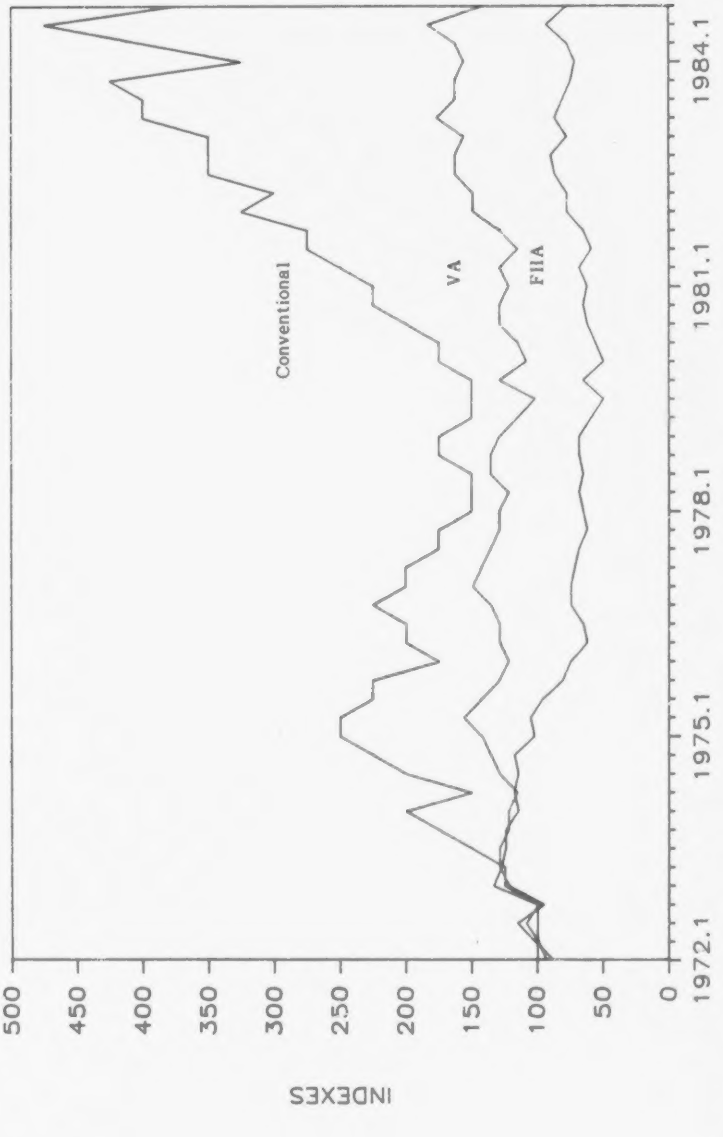
Source: National Delinquency Survey, Mortgage Bankers Association of America.

Prepared by the Mortgage Bankers Association of America, Economics Department, April 1985.

Table to Accompany Statement of Robert J. Spiller
Mortgage Bankers Association of America, April 18, 1985

**EXHIBIT 5**

## GROWTH IN FORECLOSURES STARTED
## INDEXES (1972 = 100)



Source: National Delinquency Survey, Mortgage Bankers Association of America

Prepared by the Mortgage Bankers Association of America, Economics Department, April 18, 1985

Table to Accompany Statement of Robert J. Spiller
Mortgage Bankers Association of America, April 18, 1985

**EXHIBIT 6**

### VA RESTORATION USE AND FORECLOSURES

| | Restoration Use (Percent of Originations) | Restorations Foreclosures (Percent of All VA Foreclosures) |
|---|---|---|
| 1978 | 10.3 | 1.3 |
| 1979 | 11.0 | 1.6 |
| 1980 | 11.2 | 2.9 |
| 1981 | 10.4 | 4.4 |
| 1982 | 10.1 | 6.6 |
| 1983 | 10.6 | 7.7 |
| 1984 | 15.1 | 7.9 |

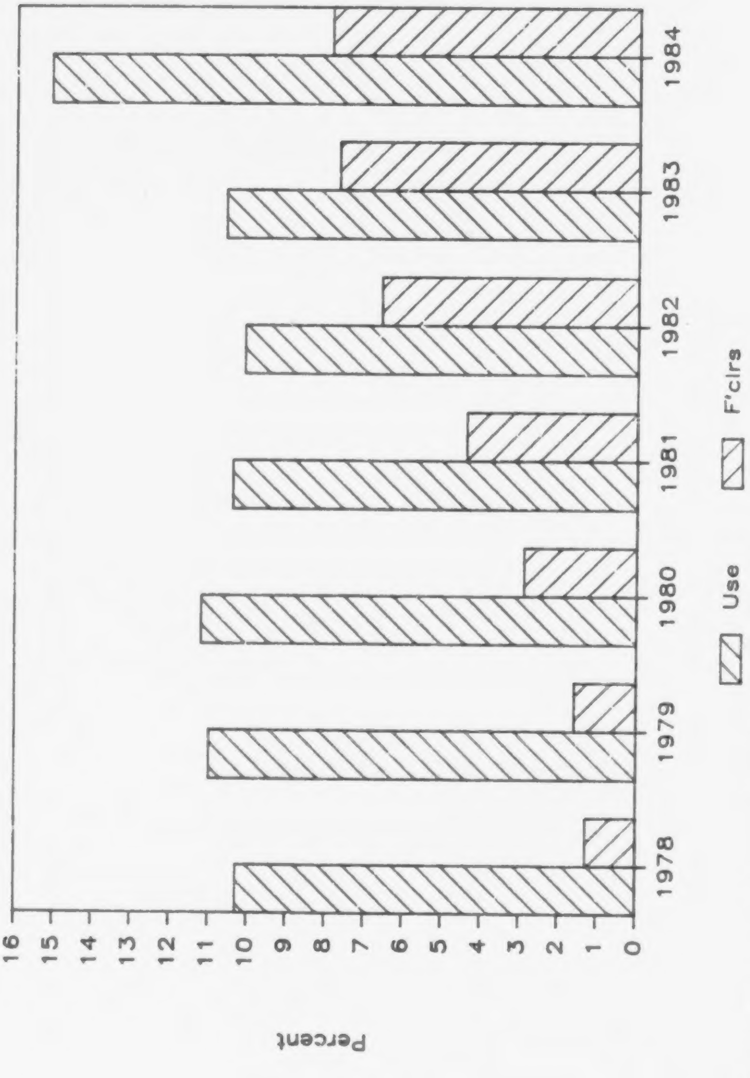
Source: Veterans Administration, Loan Guaranty Department

Prepared by the MBA Economics Department, April 1985.

Table to Accompany Statement of Robert J. Spiller
Mortgage Bankers Association of America, April 18, 1985

EXHIBIT 7

VA RESTORATION USE AS A PERCENT OF VA ORIGINATIONS, AND
RESTORATIONS FORECLOSED AS A PERCENT OF ALL VA FORECLOSURES



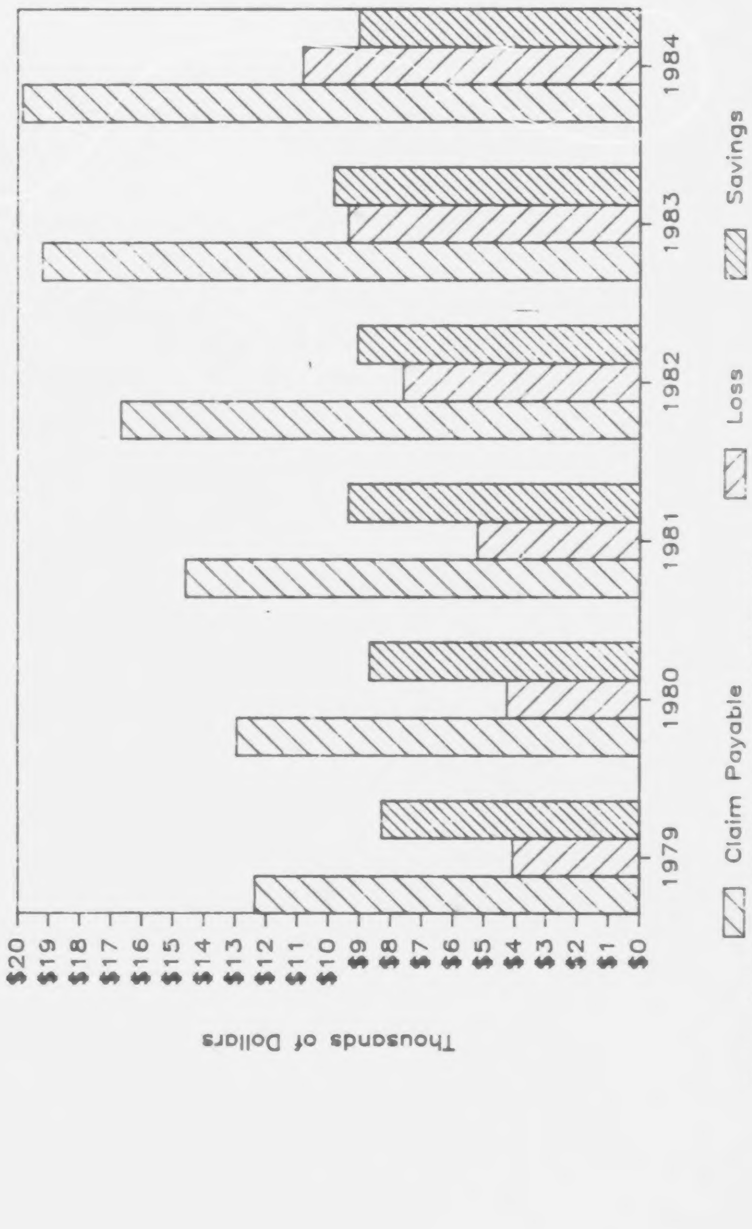
Source: Veterans Administration, Loan Guaranty Department

Prepared by the Mortgage Bankers Association of America, Economics Department, April 18, 1985

Table to Accompany Statement of Robert J. Spiller
Mortgage Bankers Association of America, April 18, 1985

**EXHIBIT 8**

AVERAGE VA CLAIM PAYABLE FOR PROPERTY SOLD DURING FISCAL YEAR;
AVERAGE LOSS FOR PROPERTY SOLD DURING FISCAL YEAR;
AVERAGE SAVINGS FROM SALE OF PROPERTY DURING FISCAL YEAR



Source: Veterans Administration, Loan Guaranty Department

Prepared by the Mortgage Bankers Association of America, Economics Department, April 18, 1985

Table to Accompany Statement of Robert J. Spiller
Mortgage Bankers Association of America, April 18, 1985

**EXHIBIT 9**

## MORTGAGE BANKERS ORIGINATIONS OF VA AND FHA LOANS AS A PERCENT OF TOTAL VA AND FHA ORIGINATIONS

| | | Mortgage Bankers Originations ($ millions) | | Percent of Total Originations of: | |
|---|---|---|---|---|---|
| | | VA | FHA | VA | FHA |
| 1975 | | $ 6,326 | $ 4,601 | 71.6% | 73.4% |
| 1976 | | 7,381 | 5,096 | 70.8 | 72.8 |
| 1977 | | 11,624 | 8,228 | 78.1 | 78.6 |
| 1978 | | 12,372 | 11,587 | 77.2 | 79.5 |
| 1979 | | 15,554 | 17,397 | 82.4 | 83.9 |
| 1980 | | 9,567 | 12,161 | 79.1 | 81.3 |
| 1981 | | 6,044 | 8,736 | 80.2 | 82.9 |
| 1982 | | 6,158 | 9,808 | 80.1 | 85.4 |
| 1983 | | 14,148 | 22,936 | 74.9 | 79.8 |
| 1984 | QI | 2,571 | 3,492 | 74.5 | 78.6 |
| | QII | 2,508 | 3,527 | 75.4 | 79.9 |
| | QIII | 1,504 | 2,123 | 69.9 | 76.2 |

Source: Survey of Mortgage Lending, Department of Housing and Urban Development.

Prepared by the Mortgage Bankers Association of America, Economics Department, April 1985.

Table to Accompany Statement of Robert J. Spiller
Mortgage Bankers Association of America, April 18, 1985

**EXHIBIT 10**

|  | Maximum VA Guaranty |  | Median Sales Prices |  |  |  |  |  |
|---|---|---|---|---|---|---|---|---|
|  |  |  | Existing Homes |  | New Homes |  | All Homes 1/ |  |
|  | Amount | % Change From 1974 | Price | % Change From 1974 | Price | % Change From 1974 | Price | % Change From 1974 |
| 1974 | $17,500 | NA | $32,000 | NA | $35,900 | NA | $32,725 | NA |
| 1975 | $17,500 | 0.0 | $35,300 | 10.3 | $39,300 | 9.5 | $36,026 | 10.1 |
| 1976 | $17,500 | 0.0 | $38,100 | 19.1 | $44,200 | 23.1 | $39,162 | 19.7 |
| 1977 | $17,500 | 0.0 | $42,900 | 34.1 | $48,800 | 35.9 | $43,981 | 34.4 |
| 1978 | $25,000 | 42.9 | $48,700 | 52.2 | $55,700 | 55.2 | $49,891 | 52.5 |
| 1979 | $25,000 | 42.9 | $55,700 | 74.1 | $62,900 | 75.2 | $56,825 | 73.6 |
| 1980 | $27,500 | 57.1 | $62,200 | 94.4 | $64,600 | 79.9 | $62,572 | 91.2 |
| 1981 | $27,500 | 57.1 | $66,400 | 107.5 | $68,900 | 91.9 | $66,782 | 104.1 |
| 1982 | $27,500 | 57.1 | $67,800 | 111.9 | $69,300 | 93.0 | $68,057 | 108.0 |
| 1983 | $27,500 | 57.1 | $70,300 | 119.7 | $75,300 | 109.7 | $71,232 | 117.7 |
| 1984 | $27,500 | 57.1 | $72,800 | 127.5 | $79,900 | 122.6 | $74,094 | 126.4 |

|  |  | Price Adjusted VA Guaranty |  |  | RATIO: Price Adjusted Guaranty to Actual Guaranty |  |  |
|---|---|---|---|---|---|---|---|
|  | Maximum VA Guaranty | For Existing Homes | For New Homes | For All 1/ Homes | For Existing Homes | For New Homes | For All 1/ Homes |
| 1974 | $17,500 | $17,500 | $17,500 | $17,500 | 1.00 | 1.00 | 1.00 |
| 1975 | $17,500 | $19,305 | $19,157 | $19,265 | 1.10 | 1.09 | 1.10 |
| 1976 | $17,500 | $20,836 | $21,546 | $20,942 | 1.19 | 1.23 | 1.20 |
| 1977 | $17,500 | $23,461 | $23,788 | $23,519 | 1.34 | 1.36 | 1.34 |
| 1978 | $25,000 | $26,633 | $27,152 | $26,679 | 1.07 | 1.09 | 1.07 |
| 1979 | $25,000 | $30,461 | $30,662 | $30,388 | 1.22 | 1.23 | 1.22 |
| 1980 | $27,500 | $34,016 | $31,490 | $33,461 | 1.24 | 1.15 | 1.22 |
| 1981 | $27,500 | $36,313 | $33,586 | $35,712 | 1.32 | 1.22 | 1.30 |
| 1982 | $27,500 | $37,078 | $33,781 | $36,394 | 1.35 | 1.23 | 1.32 |
| 1983 | $27,500 | $38,445 | $36,706 | $38,092 | 1.40 | 1.33 | 1.39 |
| 1984 | $27,500 | $39,813 | $38,948 | $39,622 | 1.45 | 1.42 | 1.44 |

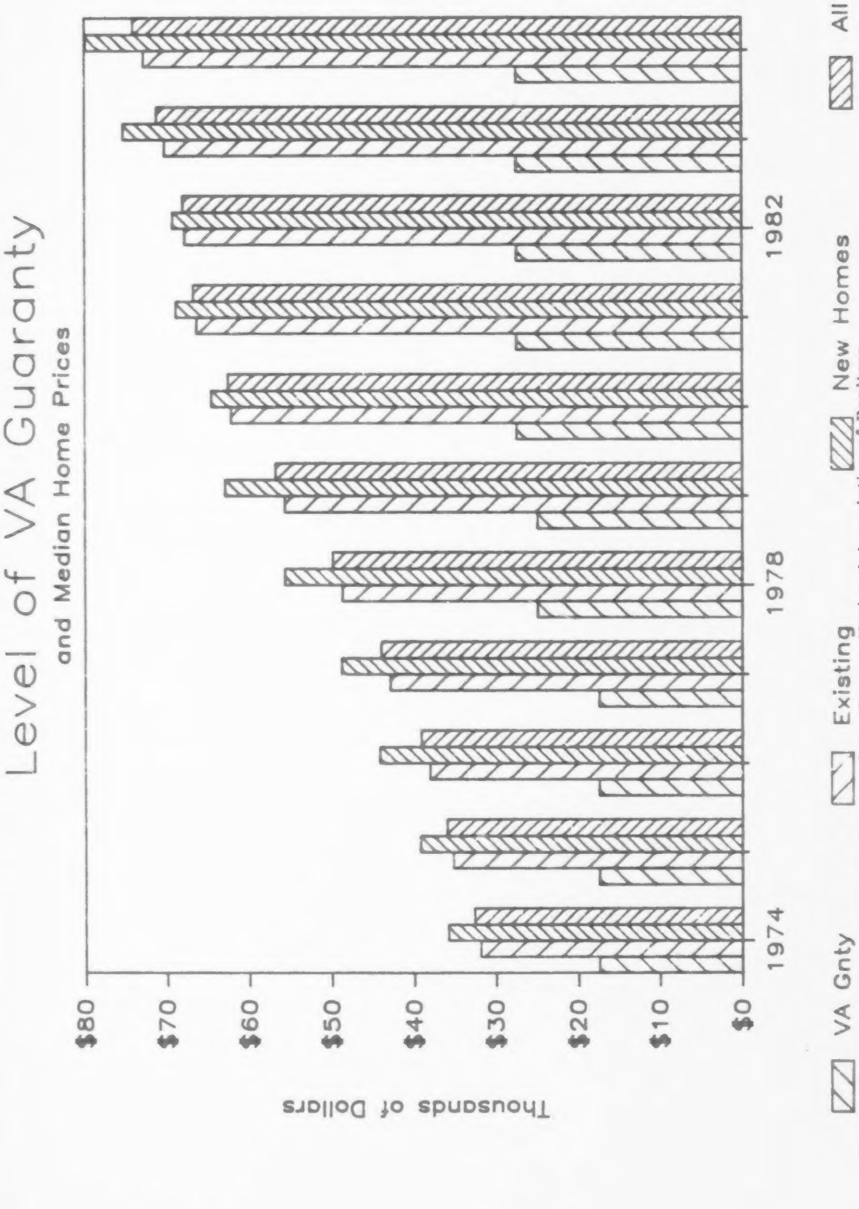
Sources: Bureau of the Census; National Association of Realtors.

1/ Weighted average (by sales activity) of median sales prices of new and existing single-family homes sold.

Prepared by the Mortgage Bankers Association of America, Economics Department, March 1985.

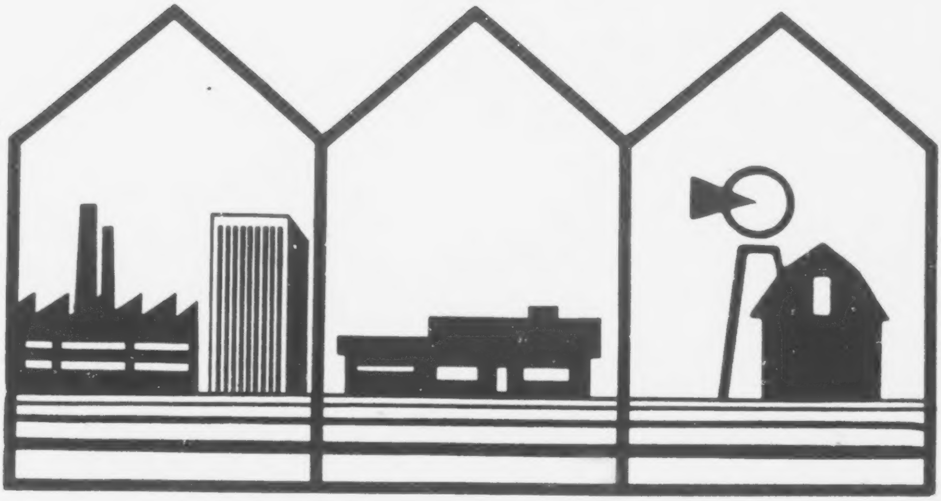
Table to Accompany Statement of Robert J. Spiller
Mortgage Bankers Association of America, April 18, 1985

**EXHIBIT 11**



Sources: Veterans Administration; Bureau of the Census; National Association of Realtors

Prepared by the Mortgage Bankers Association of America, Economics Department, April 18, 1985



### Statement of the
# NATIONAL ASSOCIATION OF REALTORS®
### THE WORLD'S LARGEST TRADE ASSOCIATION

TO: HOUSE VETERANS AFFAIRS SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

ON: VA LOAN GUARANTY PROGRAM

BY: JENNIE STABILE, REALTOR® from Woodland Hills, California

DATE: APRIL 18, 1985

My name is Jennie Stabile. I am a REALTOR® from Woodland Hills, California, the Chair of the FHA/VA Monitoring Network and the Vice Chair of the Real Estate Finance Subcommittee on Federal Regulation and Legislation, as well as, a member of the REALTOR® VA Task Force.

On behalf of the more than 670,000 members of the NATIONAL ASSOCIATION OF REALTORS®, I want to thank the Chair, Representative Shelby, and members of the Committee for the opportunity to present our recommendations on possible administrative changes in the VA Home Loan Guaranty Program as alternatives to increasing the one percent "user fee".

## OBJECTIVE OF THE VA HOME LOAN GUARANTY PROGRAM

With the conclusion of World War II, Congress created the Veterans Administration Home Loan Guaranty Program in 1944 to assist the returning veterans with obtaining homeownership. The Program was in response to the economic and sociological problems associated with postwar readjustments, and it was intended to benefit men and women because of their service to this country. There was no intention that the program serve as an instrument to achieve any federal economic objective. Instead, since its inception, the sole objective of the program has been to assist eligible veterans to become homeowners. Today, it is estimated that the program has served almost 12 million veterans in buying their homes.

The drafters of the original legislation realized that "credit" was the essential ingredient to this program. Therefore, the program was structured to provide veterans with the most favorable credit in an attempt to compensate for any lost opportunities they may have suffered in the credit market during the period of their military duty.

BEST AVAILABLE COPY

To be eligible for the home loan guaranty benefit, the only criteria is that the individual be an "eligible veteran" (meets service and discharge requirements), the loan be for eligible purposes, the home be occupied by the veterans, and that the veteran meet income and credit standards. Therefore, not only does the program seek to provide favorable credit, but its primary qualification for participation is that the individual is an "eligible" veteran.

In carrying out the objective of credit accessibility for ALL veterans, the program has become, for some, a benefit to which they feel entitled and to others a bastion of last resort. To both groups, however, the program has enabled them to purchase a home below conventional rates and usually with no down payment.

## PROPOSED FEE INCREASE

In the Fiscal Year 1986 Budget Proposal, the Administration has recommended, as a part of the budget deficit reduction package, an increased "user fee" from the present 1 percent to 5 percent. The origin of this increase is OMB Circular A-70 which purportedly directs federal credit problems towards greater self-sufficiency through cost-effectiveness.

In responding to the issue of the budget deficit, the NATIONAL ASSOCIATION OF REALTORS® has previously testified before the House and Senate Budget Committee, and the House and Senate Banking Committees, and your Subcommittee. We have recommended that any changes in taxes or tax-like user charges be designed to encourage investment in housing, homeownership, commerce and industry.

Mr. Chair, the NATIONAL ASSOCIATION OF REALTORS® has actively opposed "user fees" on federally-related housing credit programs. We feel that these fees represent a tax on the homebuying public and contradict the Federal government's traditional commitment to housing.

Originally, the Administration in its February 4, Fiscal Year 1986 Budget Proposal, recommended an increase in the VA "user fee" from the current 1 percent to 5 percent. This dramatic increase will discourage veterans from participating in the program. As we testified in March, this 400 percent increase will likely cause a reduction of 17 to 22 percent of the number of VA originations. This number certainly represents a very conservative estimate and does not include those veterans who, eventhough they can afford the increased fee, will shy away from the program because of the disincentive created by a 1-5 percent increase.

The Senate Budget Committee's recent vote to increase the VA "user fee" to 3.8 percent -- a 280 percent increase over current levels -- is only slightly less damaging to the VA program and the national economy than the Administration's February 4th proposal.

The NATIONAL ASSOCIATION OF REALTORS® is sensitive to the deficit program of the VA Revolving Fund. Optimally, we would hope that the administrative changes recommended here today will provide the VA Home Loan Guaranty Fund with the type of monetary relief it would need to continue its objectives.

We have been in communication with the Administration and understand that they have taken a new position on the proposed VA "user fee" increase. The fee would be increased from the current 1 percent to 3.8 percent over the next five years. Specifically, the fee would be increased from 1 to 2 percent for fiscal year 1986, from 2 to 2.5 percent for fiscal year 1987, from 2.5 to 3 percent for fiscal year 1988, from 3 to 3.5 percent for fiscal year 1989 and from 3.5 to 3.8 percent for fiscal year 1990.

Most importantly, there would be a triggering mechanism that would be activated either up or down depending on the actuarial soundness of the Revolving Fund. The determination would be made on an annual basis by the VA Administrator after he or she has had an opportunity to review the financial accounts of the VA Home Loan Guaranty Program. If the VA Administrator decides that the Fund requires additional money to remain solvent through the coming fiscal year, then he or she could authorize an increase in the fee for that proceeding year. Conversely, if the VA Administrator discovers that the Fund is more than adequately financed, then he or she would authorize a reduction in the fee for the proceeding year.

The NATIONAL ASSOCIATION OF REALTORS® is very concerned about any fee increase which would detrimentally effect the VA Home Loan Guaranty Program. However, we do feel that the Administration's most recent proposal is a step in the right direction. In addition, it is important to keep in mind that any "user fee" trigger must coincide with a committment to increase the efficiency and effectiveness of the VA Home Loan Guaranty Program.

## ALTERNATIVES TO INCREASING VA FEES

While the Association opposes an increase in VA fees, we want to provide the Subcommittee with the following suggested alternative approaches to improving the financial stability of the VA Home Loan Guaranty Program.

It is important to note, however, that the recent solvency problems facing the program are not simply a consequence of its administrative operation. While the continuing economic recovery has contributed to the health of the housing industry, as a whole, there are still various socio-economic factors which remain as incidental to mortgage default. These factors are similarly present in the VA housing program. The default rate for the VA Home Loan Guaranty Program is not excessive and, in fact, parallel the industry norm.

- Underwriting and Appraisal Standards: We recognize that, because of the very nature of the VA Home Loan Guaranty Program, the underwriting standards are necessarily "flexible". However, we continue to be concerned that every effort be made to ensure that the Veteran borrower has the ability to assume and discharge the financial obligation of a home loan.

It is our understanding that the Inspector General's Office of the Veterans Administration has recently initiated a long-term study to thoroughly review the Administration's existing underwriting criteria to identify possible areas of improvement. We wholeheartedly support this effort, and urge the VA to strengthen its standards, where necessary, in order to minimize the risk to the revloving fund.

We are also aware of the Inspector General's continuing study of the appraisal practices in the Home Loan Guaranty Program. It is our understanding that this internal review will be completed in the near future, and we also encourage the development of potential improvements in the appraisal process.

- Foreclosure Procedures: As I am sure this Subcommitte knows, the VA Loan Guaranty Revolving Fund was, until recently, self-sustaining. In fact, only 4 percent of the total VA loans which have been originated since the inception of the guaranty program have resulted in foreclosure.

While a reduction in the availability of internal funding to the Guaranty Fund has been one of the major contributors to its financial ills, we are concerned that the VA's foreclosure policies have, perhaps, exacerbated the decline in the Revolving Fund. Prior to the enactment of the Deficit

Reduction Act of 1984 (July 1984), the Veterans Administration, in about 95 percent of its default cases, chose to acquire and resell the foreclosed property, while compensating the lender for its direct costs incurred by the default and foreclosure.

In an effort to address this issue, Congress adopted a provision in the Deficit Reduction Act, which requires the VA to undertake a "case-by-case"analysis in all default situations to determine which foreclosure method is most cost effective. These two methods include either: (1) acquisition and resale of the defaulted property, with compensation to the lender for its costs; or (2) payment of the ,loan guaranty only. According to the VA, this new procedure has, in fact, reduced its acquisition rate from 95 percent to 90 percent.

We supported this approach when it was debated last year, and believe that it is a viable alternative to the previous foreclosure policies, and we urge its continued use in a comprehensive fashion. We also recommend that Congerss periodically monitor and evaluate the effects of the "case-by-case" method.

- Mortgage Guaranty Limit: Presently, there is legislation to increase the VA mortgage guaranty limit before both the House and Senate Veterans Affairs Committees. The VA mortgage guaranty limit of $27,500 has not been changed since 1980. However, since this time, the U.S. Department of Commerce has reported a price increase for new home median sales by over 24 percent. This significant increase in housing costs is responsible for the need to increase the loan guaranty limit.

Currently, there is a growing number of areas nationwide where the Veterans Home Loan Guaranty Program is being outpriced by housing costs. A glaring example of this program is in California where the largest population of veterans, over 3 million, reside and where the housing costs are 50 - 60 percent above the national average.

The NATIONAL ASSOCIATION OF REALTORS® supports the increase in the guaranty limit and consider its a viable alternative to increasing the current 1 percent "user fee". By increasing the VA mortgage guaranty limit, the program will support a higher principal loan amount which will translate into an increased dollar amount of the 1 percent "user fee" into the VA Revolving Fund. Although the increase in the VA mortgage guaranty limit may also increase the VA Revolving Fund's foreclosure risk, a combination of stricter appraisal and underwriting standards should more than minimize the possible additional risk.

- Disposition of Properties: Currently, the Veterans Administration has some 22,000 properties in inventory valued at over $800 million. Because of the significance of these assets, the property management and disposition segment of the loan guaranty program is in the best position to contribute to the financial health of the program by maximizing the resale of its acruied properties.

We are aware of the new approaches that the VA has been utilizing to improve its disposition process, including expedited processing, bonus incentives on older properties, and negotiated pricing. We commend these efforts, and encourage the VA to continue to seek similar marketing tools.

As part of our continuing efforts to maintain an open dialogue with both the VA and FHA, the NATIONAL ASSOCIATION OF REALTORS® meets periodically with officials of the VA, as part of our FHA/VA Monitoring Network. Our members have discussed the property disposition situation and, in concert with the VA, we are exploring ways in which REALTORS® can assist in the resale of these properties.

Mr. Chairman, in conclusion, we strongly recommend that this Subcommittee further review and evaluate the specific components of the VA Home Loan Guaranty Program. The "user fee" is not the solution to the Program's deficit - more specific program related changes must be considered for the long-term health and maintenance of the VA Program.

I want to express my appreciation to the Subcommittee for the opportunity to appear today. At this time, I request that the full text of my testimony be submitted for the record and, I would be happy to answer any questions you may have. Thank you.

*Statement of*

# *The American Legion*

1608 K STREET, N. W.
WASHINGTON, D. C. 20006

PAUL S. EGAN, DEPUTY DIRECTOR
NATIONAL LEGISLATIVE COMMISSION

and

JOSEPH E. MILLER, ASSISTANT DIRECTOR
NATIONAL LEGISLATIVE COMMISSION

before the

HOUSE COMMITTEE ON VETERANS AFFAIRS

on

REFORM OF THE VA HOME LOAN PROGRAM

APRIL 18, 1985

PAUL S. EGAN, DEPUTY DIRECTOR
NATIONAL LEGISLATIVE COMMISSION
and
JOSEPH E. MILLER, ASSISTANT DIRECTOR
NATIONAL LEGISLATIVE COMMISSION
before the
HOUSE COMMITTEE ON VETERANS AFFAIRS
on
REFORM OF THE VA HOME LOAN PROGRAM
APRIL 18, 1985

Mr. Chairman and members of the Committee, The American Legion appreciates this opportunity to present its views on the VA home loan guaranty program. At the outset we feel compelled to state that in our judgement the VA home loan program ought to be the very best housing program in the country; a model to be emulated by other federal and state programs. Sadly, this is not the case. There are in fact several home loan programs operated by individual states which are both more efficient and more beneficial to veterans than the VA program.

A notable example is the program operated by the state of California. Known as the "Cal'Vet" program, veterans using it are permitted to purchase single family dwellings up to a maximum value of $75,000 with 30 year fixed mortgages bearing maximum interest rates of 8 percent. That program is supported by state sales of tax exempt General Obligation and Revenue Bonds. In essence, the state purchases property for the veteran and the veteran repays the state through a mortgage lender.

We cite the example of the Cal-Vet program partially because we believe VA should model itself after CAL-Vet, and because the Cal-Vet program is a shining example of a completely self sufficient program. In spite of numerous ups and downs in the national economy since the Cal-Vet program was begun on July 1, 1922, it has remained self sufficient having made over 369,000 loans valued at over $6.5 billion.

The American Legion believes the VA program too can be returned to self sufficiency obviating the need for either user fees or direct appropriations to cover shortfalls in the Loan Guaranty Revolving Fund (LGRF). In essence, there are 6 reforms that we suggest to accomplish VA home loan program revitalization and we suspect these reforms, if adopted by the Congress, will set in motion a mini boom in the lending, building and realestate industries while simultaneously making housing affordable to tens of thousands of veterans currently frozen out of the market.

Before detailing these proposals, it is appropriate to briefly digress for the purpose of examining the history of recent changes in the program which have brought the program to its current state of near insolvency. In 1983 a change was made in the VA home loan program which accelerated the drain on the LGRF, necessitating direct appropriations in 1984.

The reconciliation act of 1983 required VA to sell its portfolio of direct or vendee loans. Though immediate and short term savings were projected, this move was highly disruptive of LGRF stability. Without the portfolio of VA loans, VA was unable to borrow on its assets to meet guaranty obligations at precisely the same time that foreclosures were increasing dramatically due to the nation's most recent deep recession.

At the time, it was projected that sale of the portfolio would generate $968 million in savings which would go to the Treasury as miscellaneous offsetting receipts. In actuality the sale in 1983 of portfolio loans netted the Treasury only $683.9 million. Continued sales in 1984 netted the Treasury another $853.7 million. On balance, even though less savings than projected were realized, the 1983 and 1984 sales of VA loans permitted savings for the Treasury amounting to $1.5 billion. Given the size of this figure, and the interest that would have accumulated, it is clear to us that sufficient assets could have been generated to cover LGRF shortfalls created by high foreclosure rates if the VA had been permitted to maintain and properly manage its loan portfolio.

Another problem, and certainly not the least by any means, concerns veteran participation. For the last several years as property values have escalated and interest rates have fluctuated wildly, millions of would-be buyers have been unable to afford home ownership. In that regard, it is unneccessary to look at the numbers of veterans who have used the program to date, because those numbers are miniscule by comparison with the millions of Vietnam era veterans comprising the baby boom generation who are now at prime home buying age.

Yet another problem may have arisen because veterans over the last few years have been more than willing to contribute in efforts to bring the federal budget under control. Generally the veterans community agreed, albeit with great reluctance, to the imposition in 1983 of a ½ percent user fee and the later increase to 1 percent in 1984. The proceeds of this fee are now being redirected from the Treasury to the LGRF because of the LGRF deficit, but higher fees mean more expensive housing for veterans; exactly the opposite of what is needed to increase veteran participation.

In summary, the problems besetting the home loan program include LGRF insolvency due to ill advised sale of the home loan portfolio, lagging participation by veterans unable to afford use of the program, high property values, high interest rates and added disincentives for use of the program caused by user fees. Just as these are but a few of the problems with the program, the solution holding the greatest promise of restoring the program must reverse many of these problems without threatening the legitimate interests of lenders, builders or realtors. The LGRF must be made solvent. Veteran participation must be dramatically increased. Interest rates must be made affordable and added assurances that veterans are good mortgage risks must be provided. To accomplish these ends we propose an integrated 6 point plan including accelerated VA direct loan activity, a special new mortgage program for first time home buying veterans,VA sold mortgage insurance against short term economic reversal, non assumability of mortgages written under the special new program, lender refinancing in lieu of foreclosure under certain circumstances and the addition of a new chapter of title 38 codifying many of the non-binding provisions of the VA Lenders Handbook (VA Pamphlet 26-7 Revised).

The first of these is designed to rebuild the home loan portfolio that was truncated in 1983 and 1984,but which is so critically important to restoring solvency to the LGRF. It is our understanding that VA will possess some 19,800 properties in its inventory of properties acquired through foreclosure by the end of fiscal year 1985. Recognizing that each of these properties can be put up for sale by the VA's direct loan vendee program at interest rates even lower than the maximum rate set by the Administrator, we believe VA should proceed to do so aggressively.

To expedite the sale of these properties, it is further recommended that the policy that vendee properties be sold only through real estate brokers be reversed. Were VA to sell these properties directly to veterans without brokers, the 5 to 6 percent fees of brokers could be saved and passed on to the buyer in the form of 5 to 6 percent reductions in property costs. Alternatively, if the VA found that its properties could be moved more quickly by applying the 5 to 6 percent savings to lower interest rates or to offsetting discount points paid by the buyer at the time of sale, VA should do so. Additionally, we see no good reason why the existence of VA held properties is so generally unknown to the public at large. To further expedite sales,VA should advertise its properties in newspapers and other appropriate media outlets just as any other seller would.

Importantly, this is not to say that realtors should be denied access to sales of VA properties. That certainly should continue. We do believe, however, that realtors themselves would more aggressively show VA properties to prospective buyers if VA excercised the option of selling property directly to buyers. Why this has not been done in the past is a program management question in need of a long overdue answer.

The second of our proposals is designed not only to restore LGRF solvency and make VA mortgages more affordable to first time home buying veterans, but also to generate general expansion of LGRF assets. Moreover, this proposal forms the foundation of a rejuvenated program promising growth in the housing, lending and building industries.

In essence, first time home buying veterans would be able to purchase housing with 30 year fixed rate mortgages at interest rates significantly below the maximum rate set by the Administrator. Under our proposal, lenders would be offered incentives to reduce interest rates in exchange for incremental increases in the VA guaranty up to a maximum of 60 percent. Because interest rates on these mortgages would be lower than normal, these mortgages would not be assumable when the veteran sold the property. Since the average length of time a veteran holds a mortgage is only 13 years and since the guaranty VA would provide could be substantially higher than under normal circumstances, thereby making the mortgage much more secure, we believe lenders would willingly participate in this program even though the interest rates on these mortgages would be considerably lower than prevailing market rates.

There are still other incentives for lender participation which will be discussed below, but the basic mechanism permits lenders to "buy down" the level of interest in exchange for increased guaranties. As we see it, a maximum mortgage value of perhaps $100,000 should be established for eligibility in our suggested program in recognition of the limited resources of first time home buying families.

Under this proposal, the current guaranty of the lesser of $27,500 or 60 percent would be modified. Instead, a base guaranty of $27,500 would be used. For example, a veteran is seeking to purchase a home costing $68,750. The VA set interest rate is 12 percent and $27,500 represents 40 percent of the purchase price of the home. In order to make the property affordable, the banker would be permitted to increase the guaranty in four 5 percent increments up to a maximum of 60 percent in exchange for reducing the interest rate on the mortgage by 1 percent for each 5 percent incremental guaranty increase. In this example, the veteran could obtain a 30 year fixed rate mortgage bearing an 8 percent rate. The banker in this example could avail himself of a much more secure loan owing to the increase in the guaranty and the veteran's enhanced ability to be reasonably expected to meet mortgage obligations affordably.

In that regard, the financial circumstances constraining many would-be first time home buyers cannot be overemphasized. Under the existing program the same veteran seeking a mortgage on a $68,750 home would be required to pay a 12 percent interest rate and the same lender would be limited to a 40 percent guaranty. Reductions in interest rates would permit substantial monthly savings for the veteran. The chart below using a loan value of $65,000 vividly demonstrates the monthly savings possible and strongly suggests the enhanced affordability of housing if interest rates were reduced.

| PERCENT | LOAN VALUE | RATE | PER THOUSAND | MONTHLY PRINCIPLE AND INTEREST |
|---|---|---|---|---|
| 14% | $65,000 | 30 year fixed | $12.09 | $785.85 |
| 13% | $65,000 | | $11.19 | $727.35 |
| 12% | $65,000 | | $10.20 | $668.85 |
| 11% | $65,000 | | $ 9.53 | $619.45 |
| 10% | $65,000 | | $ 8.78 | $570.70 |

Over a one year period the first time home buyer would save $702.00 with a 1 percent reduction, $1,404.00 with a 2 percent reduction, $1,996.80 with a 3 percent reduction and more yet with a 4 percent reduction in the interest rates charged on the loan. This would vastly broaden the pool of first time home buying veterans and would significantly reduce the risk to lenders of foreclosures by exposing the veteran to greater obligations than can be met.

At the outset of discussion about this proposal to make housing more affordable, it was stated that this special program could also foster dramatic growth in VA home loan assets. Both the LGRF and the Direct Loan Revolving Fund (DLRF) could become growing resources for veterans desiring to purchase homes if two additional facets were added to the special first time home buyer proposal. The first of these facets would authorize VA to purchase the low interest loans from lenders having written these special mortgages. The second facet would authorize VA lending on properties other than those in its inventory of foreclosed properties.

By authorizing VA to purchase these special low interest mortgages from the lenders having written them, the process of rebuilding VA's loan portfolio would be dramatically accelerated. This added authority can also be expected to serve as an additional incentive for lenders to write these mortgages. Additionally, those mortgages purchased by VA would serve as money generating assets further assisting the growth of available funds in the DLRF; funds which could be transferred to the LGRF if needed. Beyond this, VA should be authorized to assemble these low interest mortgages into pools of mortgage backed securities and sold to investors desiring lower yield but sound investments offering long term stability.

The other added facet would emulate the California Cal-Vet program in that VA would be given the further authority to lend funds for property to veterans through the banking community. By using the banking community for the purposes of writing and servicing VA loans, lenders would be allowed their usual fees and VA would be spared the need of enlarged FTEE levels in its Department of Veterans Benefits (DVB). Moreover, the veteran buyer would pay the banker and the banker would transfer the funds collected to the DLRF. Under the circumstances contemplated in this proposal, mortgages written by bankers using VA funds would be subject to the same limitations outlined in the above description of the special first time home buyer program. As with the low interest mortgages written by bankers using their own funds and purchased by VA for its DLRF portfolio, the mortgages written by bankers with VA funds would generate interest for VA and expand VA's assets. These loans too could be pooled and sold to investors in mortgage backed security instruments if needed.

Importantly, this addition to the special first time home buyer program should not be seen as constituting federal competition with private sector mortgage backed security institutions such as Ginny May, Fannie Mae, Freddie Mac or others. This is because the yield for investors on these special mortgages is lower due to lower interest rates.

Before leaving this proposal and moving on to the next, there is a question which can be anticipated that must be answered. How will start-up funds be made available to carry out this program of lending and loan purchasing in these times of extreme fiscal restraint? In response to this question, two options are available. The VA could do on a federal level what the Cal-Vet program does on a state level. In that regard, the Treasury could be asked to issue a special series Bond On the other hand, VA may already have available unobligated resources which could be pressed into productive service.

The third plank in our plan to revitalize the home loan program is related to the second. It is designed to add further incentives for lenders to participate in the special first time home buyer program by making these mortgages more secure and is also designed to replace user fees for first time home buyers. In essence, we suggest requiring buyers to purchase from the VA mortgage insurance against short term economic reversal. At the time of closing on a property written under the special program, the veteran buyer would be required to pay a premium of 1 percent. This premium could be amortized over the life of the mortgage just as with the current user fee, but instead of the user fee. The banker would then transfer these premiums to the VA where they would be deposited in a new revolving fund; a Mortgage Insurance Revolving Fund (MIRF).

If after having purchased this insurance the veteran sustained a short term economic set-back resulting from divorce or employment layoff, for example, the MIRF would supply funds to partially cover mortgage payments for 6-9 months until the veteran got back on his economic feet by taking on a renter, returning to work or perhaps even selling the property. This type of plan would further protect the lender's investment against foreclosure as well as protect VA's guaranty. Moreover, a plan of this nature can be seen as a preventive alternative to home loan foreclosure relief initiatives such as those passed by the House of Representatives during the 98th Congress but which failed in the Senate.

This mortgage insurance program option could and should also be extended to veterans refinancing existing home loans aiming to take advantage of reduced VA interest rates and to veterans desiring to refinance in the face of foreclosure;

again, instead of rather than in addition to a user fee. Providing this insurance to those refinancing loans has to be seen as another means toward reducing future risks of foreclosure or default.

The fourth part of our plan was discussed in conjunction with the description of the special new mortgage program. In short, first time home buying veterans participating in the special new program would have unassumable mortgages. The reason for withholding assumability on these mortgages is to provide yet another incentive to lenders. Without assumability, lenders could be reasonably assured that low interest bearing mortgages in their inventories would be short term given the average 13 year duration of a mortgage before a property is sold. Without assumability, banks would be free of large inventories of 30 year low interest rate mortgages. As for the veteran participant in the program, the loss of assumability on his or her first mortgage must be seen as a necessary trade-off permitting the purchase of a property at lower, affordable interest rates.

The fifth part of our plan is aimed at reducing the number of foreclosures in the future. For veterans finding themselves in financial difficulties of a more long term or severe nature, the VA and lenders should develop a program of refinancing in lieu of foreclosure providing certain criteria are met. Such a program should allow the veteran to refinance not only the loan but the delinquency penalties as well. This would make refinancing more affordable by freeing the financially troubled veteran from the up-front penalty obligation. As with the first time home buyer using the special mortgage plan, these veterans too should be exempted from user fees.

The refinanced interest rate would reflect the greater of either the then existing rate on the mortgage or the currently prevailing maximum rate set by the VA Administrator. In return for this, lenders would be required to forego up-front discount point charges that are ordinarily required on refinanced loans. This would make it possible for veterans to affordably refinance without acquiring additional debt.

As for the conditions to be met in order to benefit from this refinancing program, the Administrator would have to make a determination that the foreclosure proceedings or default were not the result of willful misconduct by the veteran. Also, the Administrator, through regulations developed by the VA, would have to certify that a reasonable probability the veteran would be restored to sound financial footing existed.

The final part of our proposal requires the addition of a new chapter in title 38, United States Code. By this new chapter, it is intended that many of VA's non-binding recommendations to lenders contained in the VA Lenders Handbook be codified. This is needed so as to add the force of law to VA and lender practices; particularly with regard to section F of the Lenders Handbook relating to forebearance procedures.

A few other examples of matters we believe are in need of codification are worth noting. A sound policy of loan qualifications should be established to prevent home buyers from entering into obligations they cannot meet. In years gone by, a basic rule of thumb generally observed by both buyers and lenders was that no more than 25 percent of disposable income should be devoted to housing. With property values having escalated and interest rates having fluctuated eratically (16 times between 1983 and 1984), veterans have had to consume as much as 50 to 60 percent of disposable income in order to purchase a home. Changes in interest rates have created a climate conducive to jumping into the market imprudently in order to take advantage of declining interest rates before they go back on the rise. Given the realities of contemporary housing conditions, we suggest that no first time home buying veteran should be qualified for a mortgage which would consume more than 35 percent of net disposable income. Were this qualification criteria in force prior to the most recent recession, it is likely that many fewer veterans would have found themselves facing foreclosure.

Similarly, VA should be prepared to enforce the law by reviewing and evaluating lender practices. Those lenders out of compliance should be denied the opportunity to take advantage of VA guaranties.

Another example would require VA to establish a vigorous inspection program for used dwellings. Though VA does rigorously inspect newly constructed housing, it does not inspect used housing. Unless used housing meets certain criteria, to be established by VA, no loan guaranty should be provided. As with poor qualification of a veteran's debt to income ratio, many veterans have undoubtedly defaulted on home loans due to unanticipated renovation expenses.

Additionally, the Administrator should be empowered to refuse a housing guaranty for any seller refusing to warrant, in writing, all claims to the condition and age of the property. Such a seller's warranty to the buyer would provide veterans with currently ineffective recourse and would go far toward discouraging misrepresentation of condition and age of property conveyances.

Mr. Chairman, we believe the home loan program is in serious trouble. The program cannot long survive without significant reform. The reforms outlined in this statement are a reflection of just how seriously in trouble we adjudge the program to be. In our view, it would be just as mistaken to allow the program to just limp along in its present condition as it would be to preside over its demise. Though we propose dramatic changes, particularly benefitting first time home buyers, none of them should cost the federal government much if anything. If questions linger on this last point, it is still worth giving this reform proposal a chance. In that regard, perhaps assembling a legislative reform package authorizing our proposal on a three year trial basis is in order. On that issue and the many others described in this statement, The American Legion stands ready to work with this committee toward a solution favorable to all interested parties including veterans, bankers, builders and realtors.

That concludes our statement.

SIXTY-SIXTH ANNUAL NATIONAL CONVENTION, SALT LAKE CITY, UTAH

SEPTEMBER 3, 4, 5, 1984

RESOLUTION NO: 140

COMMISSION : Economics

SUBJECT : SUPPORT OF THE HOME LOAN PROGRAM IN THE VETERANS ADMINISTRATION

WHEREAS, The VA home loan program, as a benefit available to veterans who served their country honorably, has provided over 11 million veterans with the opportunity to own their own homes; and

WHEREAS, Because of changing economic conditions and the very volatile nature of the real estate market, many hundreds of thousands of Vietnam era veterans have been unable to purchase their first homes; and

WHEREAS, The home loan program has operated successfully under the Veterans Administration since 1944, and

WHEREAS, From time to time initatives are made in the home loan program that would cause harm to the program or would otherwise dilute the intent of the home loan program; now therefore be it

RESOLVED, By The American Legion in National Convention assembled in Salt Lake City, Utah, September 3,4,5, 1984, that The American Legion support all legislation that will have a positive impact on the VA home loan program, while opposing all initatives that would be detrimental; and be it further

RESOLVED, That The American Legion oppose any attempt to remove the home loan program from the Veterans Administration.

VETERANS OF FOREIGN WARS OF THE UNITED STATES

OFFICE OF THE DIRECTOR

STATEMENT OF

DENNIS M. CULLINAN, SPECIAL ASSISTANT
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

H.R. 1516 AND THE VETERANS ADMINISTRATION
HOME LOAN GUARANTY PROGRAM

WASHINGTON, D.C. APRIL 18, 1985

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

Thank you for the privilege of appearing before this distinguished Subcommittee to present the views of the Veterans of Foreign Wars of the United States with respect to the Veterans Administration Home Loan Guaranty Program and H.R. 1516, a bill introduced by you, Mr. Chairman, along with the Honorable Christopher Smith, Ranking Minority Member of this Subcommittee. The VFW also is appreciative of the Chairman for holding this hearing, demonstrating his and the Subcommittee's continuing concern for our Nation's veterans being able to attain the American dream of home ownership.

In our view the VA Home Loan Guaranty Program is demonstrably one of the most successful and beneficial VA Programs available to veterans. More than 11 million loans have been approved to date, thus attesting to its great popularity and viability. As to the necessity of this program, there can also be

★ WASHINGTON OFFICE ★
VFW MEMORIAL BUILDING ● 200 MARYLAND AVENUE, N.E. ● WASHINGTON, D. C. 20002 - 5799 ● AREA CODE 202-543-2239

no doubt. Approximately 64 percent of all VA-guaranteed home loans are made without a downpayment, something wihch is not generally possible with conventional loans, showing that many veterans choose this type of financing precisely for this benefit which would not otherwise be available. Clearly, a vast number of veterans would not be in their own homes today if it were not for this program. We believe the VA Home Loan Guaranty Program should continue to enjoy the full support of both the Congress and the Administration.

Mr. Chairman, it is a matter of record that the Veterans of Foreign Wars strongly opposes any increase in the "user-fee" for a VA guaranteed home loan. We hold that any such increase would constitute a discriminatory tax, and work both to the veteran's and the home loan program's detriment. We are also very much against repealing the Veterans Administration's current authority to establish a home loan interest rate. We are convinced that departing from this policy would be a serious mistake, working against the veterans' best interest and seriously jeopardizing this most beneficial program. Despite the fact that the Congressional Budget Office's (CBO) figures show that the fund will remain solvent at least through Fiscal Year 1990 under current law, these ill-conceived measures are still being bandied about in certain quarters. We are adamantely opposed to their implementation.

Of course, Mr. Chairman, the question still remains as to why over the past few years, a period characterized as one of general economic recovery, the VA foreclosure rate has remained so high. We believe one factor is the current high rate of divorce in this country. Through divorce a two-income family is at once torn in two and a mortgage payment that was formerly easily met can no longer be paid. Further, an impending divorce is not something which can be easily discerned in advance from a veteran's financial statement or credit record. Thus, once healthy loans suddenly go into default. However, it must be pointed out that this problem is occuring throughout the Nation and is certainly not peculiar to veterans or VA loans.

The high rate of foreclosures is, we believe, also largely attributable to a two-part lag in this Nation's financial mending. The first such lag occurs at the regional level. That is, whereas some parts of the country have fully recovered from our most recent recession and are indeed prospering, there are still others throughout the Nation that have yet to reexperience the boon of financial health, and a great number of VA defaults are occuring precisely within these depressed region. Thus, this first lag is certainly an exacerbating factor, contributing to the high foreclosure rate.

Even so, there is yet a second lag occuring within the overall national economic recovery. This one occurs at the individual level, and may have an even more detrimental affect on the VA Home Loan Guaranty Program than the first. Even within economically properous regions there are individuals, veteran borrowers, who have yet to regain their financial strength. Veterans who are still unemployed, underemployed, or only recently reemployed are certainly in this category. Also, there are veterans who, say, once earned ten dollars an hour working in heavy industry or construction but who are now only making five dollars an hour as service industry employees. All of those veterans who fall under the unfortunate axiom "first fired last rehired" must also be of consideration. These are all precisely the individuals who have most overextended their resources and credit so that their financial health--their ability to make a hefty mortgage payment--lags far behind that of the rest of the Nation.

Be this as it may, these veterans will recover--but they need time. So it is our contention that the authority of the Administrator to assist veterans in keeping their homes should be greatly expanded, and that this authority should be liberally exercised. We believe that such a judicious exercise of sufferance and patience will greatly contribute to achieving our common goal--veterans living in their own homes and a financially healthy Home Loan Guaranty Program.

However, this is not to suggest that there is not room for improvement. The VA Home Loan Guaranty Program, like any other, could well stand some refinement. With respect to the programs' solvency there are, to our minds, two main objectives to be achieved--reducing the number of foreclosures and improving the handling of defaulted properties by the VA.

With respect to reducing foreclosures, and as previously alluded to, we feel that veterans should be extended periods of grace and receive priority assistance from the VA in order to make their mortgage payments and keep their own homes. Both the veteran and, ultimately, the VA Home Loan Guaranty Program would benefit. In this vein, we would also recommend that the VA be notified when a mortgage payment is one month overdue rather than only after three payments have been missed as is currently the practice. This, in many cases, would allow for successful remedial action before a loan is irredeemably in default.

Mr. Chairman, we also believe considerable improvement can be made in the manner in which defaulted properties are handled. It is of tantamount importance to reduce the amount of time real property is held by the VA. Real property is very expensive to hold since the VA must pay taxes on all such property in its inventory, as well as securing it against vandalism and weather. Although the current decline in interest rates and improving economy should increase VA property sales, new and more aggressive marketing techniques could further enhance such activity. Another possibility would be for the VA to sell some of its holdings directly instead of exclusively through brokers as is the current practice. Additionally, since a long-holding time for certain properties may sometimes be forecast upon acquisition, it may be better to drastically discount them immediately in order to achieve quicker sales. Perhaps those holdings deemed most difficult to sell could be both very drastically discounted and then sold without recourse so as to move them expeditiously and reduce the VA's financial exposure. Finally, increased auctioning of such properties might also decrease holding time.

Also, the manner in which property is acquired should be scrutinized. A provision of P.L. 98-369 requires that property be acquired on a case-by-case basis, that is, the VA may not acquire property when costs would be in excess of the amount liable under the guaranty. This has already resulted in a decrease of acquisitions from 95 percent to 89 percent. With the enactment of this law savings were projected to be in excess of $158 million annually. Vigorously pursuing this case-by-case approach may result in even greater savings.

Another means of enhancing the VA Home Loan Guaranty Program's assets could be by increasing its portfolio of Vendee Loans--since they generate collections in the form of principal and interest payments. Additionally, funds generated by assets sales enter the Loan Guaranty Revolving Fund (LGRF) as offsetting collections, which offset obligations and, correspondingly, outlays.

At this juncture, Mr. Chairman, it should be noted that the CBO now estimates that under current law the LGRF could sell sufficient assets to meet its projected deficits through 1990, this would eliminate the need for appropriations during this period, and is certainly a powerful argument against any increase in the user-fee on vendee loans since the VA's effort to pursue this beneficial course would be impaired, reducing sales and thereby resulting in greater cost to the government. Further, it may be readily inferred from the CBO estimate that although the VA Home Loan Guaranty Program has encountered financially troubled waters, the mechanisms required to keep it afloat and on course are essentially well in place. This program has not only been a boon to veterans but also to the Nation as a whole. It has been shown the VA Home Loan Guaranty Program contributes more to the economy than it takes out by providing a source of credit without which the building industry would surely languish. We are adamantly against implementing any rash proposals which would severly alter its character and serve only to the detriment of this valuable program because of temporary financial difficulties. Yes, let us move to make improvements, but then only move with the utmost caution and care.

With this in mind, we would now offer several recommendations which we believe would enhance this program's operation and the service it provides veterans. The Honorable Robert A. Roe has introduced a bill, H.R. 185, which would answer our current Resolution No. 612 by amending 38 USC inorder to provide mortgage protection life insurance to certain service-connected disabled veterans. The VFW strongly believes all veterans with service-connected disabilities, not just those who have been authorized specially adapted homes, should be eligible for mortgage life insurance assistance. Currently, many disabled veterans are classified as uninsurable and denied this protection by commercial insurers, while others are prevented from obtaining it due to the exorbitant premiums required. In recognition of their extreme sacrifice for this Nation, we strongly support the enactment of H.R. 185.

We of the VFW favor veterans being afforded the option of using buyer brokers when buying a home. This would result in decreased costs to the veteran and also to the VA since foreclosure would consequently decrease. We also support raising the maximum entitlement available for the purpose of purchasing a manufactured home to the same level as that permitted for other types of dwellings. With the rapidly escalating cost of housing today, manufactured homes are often all that a veteran can afford. Additionally, since a VA loan may now be granted for both the manufactured home and the lot, a higher entitlement is certainly needed. Finally, it is our opinion that the Administrator should exercise greater latitude in setting the VA Home Loan percentage/maximum amount so as to maintain this program as the most viable and desirable means of home financing available.

Mr. Chairman, also of consideration at this hearing is H.R. 1516. This bill would amend 38 USC 801(a) and (b) so that a service-connected disabled veteran who is entitled to special home adaptations assistance under 801(a) or one who is entitled to special home adaptations assistance under 801(b) would both be able to use this assistance to acquire a residence with such adaptations, as deemed reasonably necessary by the Administrator, already in place. To our minds, this bill enjoys the duel virtues of effectively redressing what is undoubtedly an inadvertent inequity of law while costing the government little or no money. If enacted, this measure would rightfully benefit that most special class of citizen--the service disabled veteran and has the strong support of the Veterans of Foreign Wars. We highly commend both yourself and Congressman Smith for having introduced this bill.

In considering the current status and functioning of the Veterans Home Loan Guaranty Program, the delegates to our most recent National Convention adopted Resolutions No. 612 and 615 which are appended to our testimony, and we urge your careful consideration of the recommendations therein.

Mr. Chairman, this concludes my testimony. I will be happy to respond to any questions you may have.

## Resolution No. 612

## MORTGAGE INSURANCE FOR DISABLED VETERANS

WHEREAS, veterans, because of their service-connected disabilities, may be denied mortgage life insurance protection by being classified as uninsurable by commercial insurers; and

WHEREAS, veterans because of their service-connected disabilities, may be required to pay higher premiums for such insurance; and

WHEREAS, only veterans who are entitled to specially adapted housing are currently eligible for such insurance assistance; and

WHEREAS, we believe that service-connected veterans should not be required to pay higher premiums or be denied such insurance protection for the benefit of their families; now, therefore

BE IT RESOLVED, by the 85th National Convention of the Veterans of Foreign Wars of the United States, that we seek the introduction and passage of legislation that will provide for relief from higher insurance premiums or for mortgage life insurance for service-connected disabled veterans.

Adopted by the 85th National Convention of the Veterans of Foreign Wars of the United States held in Chicago, Illinois, August 17-24, 1984.

Resolution No. 612

Resolution No. 615

VETERANS ADMINISTRATION HOME LOANS

WHEREAS, current law provides that Federal Housing Administration (FHA) loans will bear a local buyer/lender negotiated rate of interest instead of a nationally fixed rate; and

WHEREAS, such may serve to make Veterans Administration (VA) fixed rate home loans less attractive to sellers and lenders; and

WHEREAS, VA home loans are a substantive part of the benefits "package" afforded those who have honorably served their nation in the Armed Forces; and

WHEREAS, the maintenance of a competitive and viable VA home loan program is very necessary in order for veterans to continue to receive meaningful benefits in recognition of their service; and

WHEREAS, changes in the VA home loan program such as granting the VA Administrator the ability to (a) independently set VA home loan rates; (b) exercise greater latitude in the VA home loan guarantee percentage/maximum amount; (c) authorize veterans the option to engage the service of a buyer broker; (d) authorize the subsidization of VA loan interest rates, and other program improvements, may strengthen that program, now, therefore

BE IT RESOLVED, by the 85th National Convention of the Veterans of Foreign Wars of the United States, that we seek the introduction and passage of legislation that will serve to maintain the VA home loan program as the most viable and desirable means of home financing available.

Adopted by the 85th National Convention of the Veterans of Foreign Wars of the United States held in Chicago, Illinois, August 17-24, 1984.

Resolution No. 615

Testimony of

DAVID J. PASSAMANECK

Lt. Col., USA, Ret.

NATIONAL LEGISLATIVE DIRECTOR, AMVETS

Before The

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS,
COMMITTEE ON VETERANS' AFFAIRS

UNITED STATES HOUSE OF REPRESENTATIVES

On

The VA Loan Guaranty Program

1000, 18 April 1985
Room 334, Cannon House Office Bldg.

AMVETS appreciates the opportunity to present our views on the VA loan guaranty program.

As we testified concerning the 1986 VA Budget, we are vehemently opposed to increasing the user fee from 1 to 5 percent. The effective result of this increase will be to eliminate the 100% financed mortgage which has been the most attractive feature of the singularly most successful veterans benefit in the nation's history.

The loan guaranty fee was increased to one percent last year and extended by two years, through FY 1987, in response to the need to shore up the program by diminishing the need for appropriations to meet shortfalls and enable the VA to meet its guaranty commitments. Also, a supplemental appropriation of $100 million was made to the Fund last fiscal year and another $160 million was transferred to the Fund from other benefits programs.

The President's budget for FY 1986 includes a request for another appropriation of $46.6 to meet the shortfall that the Administration expects to occur in the fund during FY 1986; alternatively, in lieu of that appropriation, the President's budget proposes the enactment of legislation to increase the VA loan guaranty funding fee by four hundred percent, from one to five percentage points. This approach contrasts sharply with the Congressional Budget Office's projection that the fund will be self-sustaining through the 5-year projection period and that no appropriation or fee increase will be needed to keep the fund solvent in FY 1986 or through fiscal year 1990.

Moreover, the VA's Direct Loan Revolving Fund (DLRF) will, according to the VA, have an unobligated balance of $77.7 million at the beginning of FY 1986, rising to $122.3 million by the close of the fiscal year. Under a provision included each year in the HUD-Independent Agencies Appropriations Act, unobligated DLRF balances are available for transfer to the loan guaranty fund. The DLRF has thus provided an additional cushion to ensure the solvency of the loan guaranty program, obviating the need of a fee increase.

The imposition of a 4-percentage point increase in the fee when the receipts are not needed to keep the fund solvent would constitute a particularly heavy burden, as among veterans of war-time service, on veterans of the Vietnam era, who are at this time the most likely to be in the market for their first homes and be most in need of the assistance that the guaranty provides.

We note with approval that the Mortgage Bankers Association, which is vitally concerned with efforts to reduce the federal deficit, supports our position that the VA program is an entitlement program, which Congress did not set up to be user-fee supported, and that the proposed increased fee will result in an approximately $2,000 additional cost to the veteran and that the no-downpayment feature of the VA loan will disappear. This could cause severe impairment of the program as a home ownership tool for the veteran.

Looking at the effect of the fee increases, one cannot help wondering whether the real intent of the fee-raising is not part of the acknowledged scheme of the OMB and Treasury to bring an end to these programs. OMB has made its general opposition to loan guaranty programs perfectly clear. The implementation of OMB Circular A-70, issued in August 1984 will destroy the VA loan guaranty program, as well as other, similar programs such as FHA. Among other drastic restrictions which A-70 would impose, the elimination of the no-downpayment VA mortgage heads the list.

The fundamental challenge for Veterans during this session of Congress is to educate the participants in our political system about the essential factual and moral distinction between the total package of military and veterans entitlements and benefits and those very expensive domestic income transfer, subsidy, insurance and social welfare programs which are the root cause of the ever increasing national deficit. Not only must we understand this vital difference, but the relative priorities of governmental expenditures related to national defense and all other federally financed activities must never be confused. The primary purpose for the existence of any government is to protect its citizens or subjects from the hostile designs of foreign enemies. In other words, National Defense is the first and most important responsibility of government. The price of an adequate national defense, of course, includes the entitlements earned by our veterans as provided by law. To label veterans entitlements as part of the general domestic income transfer and welfare system not only is insulting to those who serve and have served their nation in the military but poses a serious threat to the maintenance of strong national defense posture. The first step in the logic of those who would fatally weaken our national military capacity and resolve has always been to equate militarily related personnel expenditures with "domestic" welfare programs. Unwittingly, some of our veterans and patriotic groups, in recent years have encouraged this lack of differentiation by expressing their willingness to accept for veterans their "fair share" of across-the-board budget cuts, as if all such expenditures were on an equal footing.

# STATEMENT OF
# STEPHEN L. EDMISTON
DEPUTY NATIONAL LEGISLATIVE DIRECTOR
DISABLED AMERICAN VETERANS
BEFORE THE
SUBCOMMITTEE ON HOUSING
AND MEMORIAL AFFAIRS
OF THE
HOUSE COMMITTEE ON VETERANS AFFAIRS
APRIL 18, 1985

Mr. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the more than 992,000 members of the Disabled American Veterans, may I say how very much we appreciate the invitation to appear here today to comment on the legislation pending before the Subcommittee, as well as the VA Home Loan Guaranty Program in general.

Initially, Mr. Chairman, the Disabled American Veterans wishes to commend you and the members of the Subcommittee for this timely exercise of your oversight responsibilities and consideration of legislation to assist certain seriously disabled service-connected veterans.

## H. R. 1516

Introduced by you, Mr. Chairman, and Mr. Smith, Ranking Minority Member of the Subcommittee, on March 7, 1985, H. R. 1516 proposes, through appropriate amendment of Title 38, USC to remove an inequity in the VA program that provides assistance to certain seriously disabled service-connected veterans in acquiring specially adapted residences.

As you know, Mr. Chairman, current law -- Section 801(b), Title 38, USC -- which provides the VA authority to assist certain blinded veterans and veterans who suffer the loss or loss of use of both upper extremities in acquiring special adaptations to their homes as may be necessary due to their service-connected disability.

Unfortunately this provision of law, as presently written, denies eligible veterans assistance when purchasing a home that has already been adapted with special features.

Mr. Chairman, the DAV supports favorable consideration and passage of the provisions of H. R. 1516, as the legislation proposes to remove an inequity in a program benefiting service-connected disabled veterans.

In discussing the VA's Specially Adapted Housing Programs for certain seriously disabled veterans, Mr. Chairman, we feel compelled to comment on another inequity found in the same Chapter 21 of Title 38, USC (Section 806).

As you know, Mr. Chairman, Section 806 of the Title 38, USC authorizes the Administrator to purchase, from commercial life insurance companies, Mortgage Protection Life Insurance policies, on a group basis, for those service-connected veterans who have purchased housing under Section 801(a), Title 38 USC -- the VA's Specially Adapted Housing Program.

Under present law, such permanently and totally disabled service-connected veterans are guaranteed Mortgage Protection Life Insurance not to exceed $40,000.00 or the amount of the mortgage, whichever is the lesser amount. The maximum insurance liability is reduced as the mortgage is amortized and is only available to the holder of the mortgage.

Generally, such veterans' Mortgage Life Insurance is provided to these severely disabled veterans on a cost sharing basis, with the federal government covering the increased cost of insurance that is associated with the veteran's service-connected disability. All veterans participating in the Specially Adapted Housing Program are advised of their eligibility for Veterans Mortgage Life Insurance.

Under the terms of the Program, coverage of Mortgage Protection Life Insurance shall cease whenever one of the following first occurs:

1. satisfaction of the veteran's indebtedness under the loan upon which the insurance is based;
2. the veteran's 70th birthday;
3. termination of the veteran's ownership of the property securing the loan;
4. discontinuance of payment of premiums by the veteran; or
5. discontinuance of the entire contract of agreement.

Mr. Chairman, four of these reasons for termination of insurance coverage are understandably necessary. However, we do not believe this to be true with respect to the requirement that terminates benefits to severely disabled service-connected veterans solely because of age.

Quite frankly, we believe this provision of law has created an anomaly that unfairly treats similarly situated, severely disabled service-connected veterans in a dissimilar manner in the award of benefits. No where else in Title 38, USC do we find a provision that links age as a factor in the award or discontinuance of benefits provided to service-connected disabled veterans.

As a result, Mr. Chairman, the delegates to our most recent National Convention unanimously approved a resolution calling for the enactment of legislation that would extend coverage under the VA's present Mortgage Protection Life Insurance Program beyond the age of 70.

Subsequently, on March 7, 1985, Chairman Montgomery and Congressman Hammerschmidt, at DAV request, introduced legislation (H. R. 1493) to remove this inequity.

Mr. Chairman, we recognize that the Mortgage Protection Life Insurance Program comes under the jurisdiction of the Subcommittee on Compensation, Pension and Insurance. However, we felt this inequity and its close relationship to the Specially Adapted

Housing Program, under the jurisdiction of your Subcommittee, was of such significant importance it should be brought to your attention and the attention of the other members of the Subcommittee.

The DAV strongly urges you, Mr. Chairman, and the members of the Subcommittee to support our effort to correct this unfortunate inequity in current law.

## VA HOME LOAN GUARANTY PROGRAM

As you know, Mr. Chairman, the purpose of the VA Home Loan Guaranty Program is to assist eligible veterans in obtaining mortgage credit for the purchase of existing or manufactured homes, and construction of new homes to be occupied by veterans and their families without a down payment.

There is no doubt that the VA Home Loan Guaranty Program has been a good investment in America. It has helped millions of veterans and their families become home owners -- thereby adding stability and expanding the tax base of nearly every community in our country. Since the Program's inception on June 22, 1944, veterans have obtained over 11 million home loans.

Veterans' use of the VA Home Loan Guaranty Program -- like private sector housing programs -- is subject to and directly related to general economic conditions and, more specifically, to conditions in the financial and housing markets.

As we all know, within the past five years, the housing and financial markets experienced shortages of mortgage funds, increased home prices and ownership costs, as well as realized the highest interest rates in history. Additionally, this same period was marked by unprecedented rates of high unemployment.

Veterans, like all Americans, were adversely impacted by these economic conditions. As a result, there was a dramatic decline in the number of home loans guaranteed by the VA (Fiscal Year 1982 was the lowest since 1944), accompanied by an equally heavy increase in home loan defaults and subsequent foreclosures.

Fortunately those economic conditions have abated somewhat and mortgage funds are generally more available and interest rates are down from their record breaking high in Fiscal Year 1982 and home prices have remained relatively stable. Additionally, the high rates of unemployment have also been reduced substantially.

Unfortunately though, the VA Home Loan Guaranty Program continues to experience an unusually large number of foreclosures that have adversely impacted on the Loan Guaranty Revolving Fund. And, due to the continued large numbers of foreclosures Congress last year approved supplemental appropriations to replenish the depleted Loan Guaranty Revolving Fund.

Subsequently, the Congress further addressed the dilemma of the VA's Loan Guaranty Revolving Fund by enacting legislation -- Public Law 98-369, the Deficit Reduction Act of 1984 -- that increased the users fee from .5% to 1.0%, required the fee to be deposited in the Loan Guaranty Revolving Fund and extended authority to collect the fee through September 30, 1987. These provisions, together with others contained in Public Law 98-369 pertaining to the acquisition of properties and vendee loans, all of which became effective over the past eight months.

And, as you know, Mr. Chairman, the Administration's Fiscal Year 1986 budget request proposes legislation to remedy the so-called ills of the Loan Guaranty Revolving Fund by (1) increasing from 1% to 5% the loan origination fee on all guaranteed and vendee loans; (2) allow for borrower/lender negotiated rates on guaranteed and vendee loans by terminating the Administrator's authority to set interest rates; and (3) repeal transfer authority from the Direct Loan Revolving Fund to the Loan Guaranty Revolving Fund.

Mr. Chairman, the DAV believes a number of administrative initiatives could be implemented to effectively deal with correcting the deficiencies of the Loan Guaranty Revolving Fund, as opposed to the Administration's proposed legislation that would desiccate the VA Home Loan Program. We do not believe veterans should pay for earned benefits borne by credit worthy veterans.

Specifically, we must ask a number of questions that have direct bearing on this issue.

1. What effort is the VA undertaking to ensure that veteran home buyers eligible for the VA Loan Guaranty meet reasonable credit standards prior to purchasing a home?
2. What steps has the VA taken to assist veterans who are in default and could possibly avoid foreclosure?
3. We understand that it can take the VA and the Justice Department from six months to five years to finalize foreclosure actions. What actions are both agencies taking to improve their timeliness of completing these foreclosures?
4. Following foreclosure action, how actively does the VA pursue collecting the debt that has resulted from the foreclosure?
5. What is the overall effect of the provisions of the Deficit Reduction Act of 1984 (P. L. 98-369) on the Loan Guaranty Revolving Fund?

Mr. Chairman, we believe the answers to these questions could very well lead to administrative improvements that could result in substantial savings for the Loan Guaranty Revolving Fund. This is especially true if collected debts were deposited in the Loan Guaranty Fund; foreclosure actions were completed in a timely manner; only credit worthy veterans were approved for loans and veterans in default were to receive greater assistance from the VA.

Furthermore, we strongly believe that any and all funds secured as a result of fines and settlement agreements stemming from fraud in VA Housing Program should also be deposited in the Loan Guaranty Revolving Fund.

As you know, Mr. Chairman, the VA's Inspector General has been investigating a mobile home industry "kick back" scheme and an "equity skimming" scheme in southern California.

Both schemes are defrauding veterans and the Veterans Administration. We believe it is only appropriate to utilize the funds collected from those who have violated the law to help the Loan Guaranty Revolving Fund which has been directly impaired as a result of these schemes.

In this regard, Mr. Chairman, we would strongly urge you and the Subcommittee to take appropriate action to provide legal authority for the VA to deposit such funds in the Loan Guaranty Revolving Fund.

Furthermore, we believe a legislative remedy is necessary to identify and assist those veterans who have already lost their homes through foreclosure and were victims of these fraudulent schemes.

In closing, Mr. Chairman, we would like to reiterate that during the past 40 years, the VA Housing Program has not only expanded the tax base of nearly every community in our country, but has also played an integral role in the growth and expansion of the housing and financial industries in the United States. The DAV urges you to continue your strong leadership role to ensure that veterans will continue to have a Housing Program from which they will benefit.

That completes my statement, Mr. Chairman. I again wish to thank you and the members of the Subcommittee for allowing us this opportunity to express the DAV's views on these important subjects.

PVA
PARALYZED VETERANS
[illegible]
[illegible]
[illegible]

STATEMENT OF
BOB MORAN, ASSOCIATE LEGISLATIVE DIRECTOR
PARALYZED VETERANS OF AMERICA
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS
CONCERNING
THE VA'S HOUSING PROGRAMS
APRIL 18, 1983

Mr. Chairman and Members of the Subcommittee, it is a privilege and pleasure for me to appear here today and present the views and concerns of Paralyzed Veterans of America on the housing programs administered by the Veterans Administration. I am Bob Moran, Associate Legislative Director of Paralyzed Veterans of America.

Initially, I want to extend PVA's appreciation to you Mr. Chairman and the Members of this Subcommittee, for your ongoing efforts to improve the effectiveness of these important programs that directly affect our members, and for allowing PVA the opportunity to testify and work with you and your most competent and professional staff in this important endeavor.

Last year, Public Law 98-543, the "Veterans' Benefits Improvement Act of 1984," which, thanks to the efforts of this Subcommittee, included two very important provisions relating to the VA's housing programs.

The first provision increased the allowance for those service-connected blinded veterans and service-connected disabled veterans who have suffered the anatomical loss or loss of use of both hands, to make necessary adaptations to their homes, while the second provision increased the special adapted housing assistance grant for "wheelchair" homes.

Mr. Chairman and Members of the Subcommittee, we truly appreciate these improvements, for all of PVA's members are catastrophically disabled veterans, and we know all too well the difficulties associated with and the true value of affordable, accessible housing.

## Special Adaptive Housing Allowance

## H.R. 1516

PVA supports H.R. 1516 and commends you, Mr. Chairman, and Mr. Smith for recognizing the inequity that has existed in the VA's housing program that provides assistance to certain disabled veterans in acquiring specially adapted housing.

Frequently, an eligible veteran chooses not to utilize the special adapted housing grant, but instead elects to purchase an already existing specially modified home, which therefore makes them uneligible to receive the special adpative housing allowance.

It should be noted that most homes are not built to accommodate persons with disabilities. Consequently, most homes must be remedeled so that they will be accessible, and this entails certain necessary structural alterations and added costs. It is the modifications that make special adapted homes appropriate residences for disabled veterans but under the existing law certain disabled veterans are not qualified to receive the allowance of $6,000 toward the purchase of these specially adapted homes.

This legislation, H.R. 1516, removes the inequity that exists and allows eligible veterans the opportunity to receive the assistance in acquiring these residences that have already been specially adapted. PVA has emphasized and testified before to the importance for providing disabled veterans with opportunities to restore their lives to ones of independence and dignity to the fullest extent possible.

## Home Loan Guaranty Program

Another issue of concern to the members of PVA is a proposal to raise the "users fee" within the VA's Home Loan Guaranty program. This is an entitlement program, with every veteran meeting the requirements, as provided by statute, being eligible for the guaranty of their mortgage.

Since its inception in June 1944, the VA Home Loan Guaranty Program has assisted over 11 million veterans and their families in gaining suitable, affordable housing.

The guaranty can be made up to 60 percent of the loan or $27,500, whichever is less. In the event of default, the VA will pay to the lender the outstanding balance due on the loan plus costs incurred through foreclosure, up to the amount of the guaranty. In most cases arrangements have been made for the lender to convey the property to the VA in order to encourage lender participation in the VA Home Loan Guaranty Program, and to minimize administrative costs. More importantly, the VA retains the flexibility to allow a deserving veteran to stay in the family home even after mortgage default.

This year, the Administration is proposing legislation to increase the "users fee" on VA guaranteed loans from one percent to five percent. Veterans who use their VA guaranty entitlement, and purchasers of VA owned property would either have to pay the five percent fee up front, or pay a one percent fee, while making a minimal down payment of five percent. Another option would be to have the five percent added into the loan, which would thereby raise the actual amount borrowed and would be coupled with having private mortgage insurance added to the monthly mortgage payment.

Putting this added cost into the VA Home Loan Guaranty program would all but insure the demise of the program and of veterans being able to use their VA entitlement in obtaining affordable housing.

The average cost today of a VA guaranteed home is $60,000. By adding the new five percent funding fee, veterans would be required to have at least $3,000 cash just to be eligible to use their VA housing guarantee.

One of the most valuable benefits of the VA Home Loan Guaranty Program has been the feature of no money down. A veteran may now buy a home with no down payment, providing his or her income is sufficient to support payments; the VA's home loan program is the only home lending program that carries this feature.

PVA was pleased Mr. Chairman, to have you state at the hearing March 5, 1985, with members of the Subcommittee agreeing, that it is your belief that the proposal to raise the "users fee" was a "quick fix," and that our nation's veterans would incur increased expenses associated with purchasing a home which would negate the beneficial aspect of the no down-payment feature.

Another part of the housing proposal is to repeal the current authority to establish maximum interest rates and to allow for borrower/lender negotiated rates. Currently, under Title 38, the Administrator has the authority to set minimum allowable interest rates. In 1983, the Federal Housing Administration (FHA) policy, which was similar to the VA's current policy of a set interest rate, was repealed to allow for a negotiable rate.

The efficacy of this change certainly is questionable as illustrated by introduction of H.R. 1, legislation which would repeal the negotiable

BEST AVAILABLE COPY

rate used by FHA, and revert it back to the policy as presently used by the VA. This alone should be an indication that the proposed method of negotiable rates by borrower/lender does not work.

PVA opposes the proposal of raising the user fee from one percent to five percent and repealing the authority for setting the interest rates. We believe that the current VA Home Loan Guaranty program has and continues to serve veterans well, giving the veteran borrower the opportunity to secure a low cost loan, with no down payment, thereby fulfilling the American dream of owning a home.

## Conclusion

Mr. Chairman and Members of the Subcommittee, on behalf of the members of Paralyzed Veterans of America, I appreciate the time and attention given to our statement by this Subcommittee. We are pleased to give our full support to H.R. 1516, which would allow certain eligible veterans to receive their special adapted housing assistance allowance of $6,000 toward the purchase of an already adapted home.

PVA opposes the proposals which would increase the "users fee" for a VA Guaranteed Home Loan and to repeal the VA's authority in establishing the home loan interest rate. We believe that since its inception, over forty years ago, that the VA's Home Loan Guarantee program has and continues to serve its intended purpose -- providing veterans and their families with affordable housing.

This concludes my statement Mr. Chairman, and I will be glad to answer any questions that I can.

Vietnam Veterans of America, Inc.
2001 S St. NW
Suite 700
Washington DC 20009-1125

(202) 332-2700

STATEMENT

OF

RICHARD F. WEIDMAN

OF

VIETNAM VETERANS OF AMERICA

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFIARS

COMMITTEE ON VETERANS' AFFAIRS

UNITED STATES HOUSE OF REPRESENTATIVES

APRIL 18, 1985

Mr. Chairman, Vietnam Veterans of America thanks you for the opportunity to present our views to you and your colleagues here this morning. On behalf of Vietnam Veterans of America, I wish to thank you Mr. Chairman, for your vigorous defense of the VA Home Loan Mortgage Guaranty Program against short sighted assaults by this President's Office of Management and Budget (OMB). At hearings earlier this spring, you were most gracious and kind in your praise of the veterans service organizations for standing with you in that struggle, and for our analyses and work which you deemed to be most helpful. Frankly, Mr. Chairman, your words challenged us to re-evaluate whether we were really fulfilling that public trust invested in us to make proposals that would truly serve the veterans we are pledged to represent. As a result, a good deal of communication and serious discussion has taken place in the past several weeks to seek proposals that would address the long range health of the VA Home Loan Guaranty Program. The need here is to examine the current structure and actual effects of the program upon the intended beneficiaries, and see whether the practical availabilty and use of the program measures up to the rather noble intent of the Congress. It can be argued that the less than straightforward actions of this President's OMB has presented this Committee with a fortuitous opportunity to strengthen the program for both the present and for the future. In short, it is time to eschew only short term measures that play into the hands of those who would destroy the program by having a major crisis every year. Instead, Mr.

Chairman, it is time to seek and implement structural changes in the program that fulfill the original intent of the Congress, reaffirmed many times over the last forty years. VVA believes a solution can be achieved that meets the needs of all concerned parties.

The VA Home Loan Guaranty Program is in fact a vital veterans' readjustment program, and should be seen in that light. Vietnam Veterans of America believes that all actions taken should be measured against the impact said action will ultimately have on the ability of the first time home buyer to successfully maintain that purchase on the American dream of homeownership. The changes that VVA would suggest to you and the Committee, Mr. Chairman are severalfold.

First, Vietnam Veterans of America would reiterate that "Section F" of the VA Lenders Handbook be codified by means of the public rule making process, so that these guidelines will in fact become binding on all parties concerned. This is particularly important in regard to forebearance. There are in fact some elements in Section F that need to be strenghtened, primarily in regard to consumer protection.

Secondly, Vietnam Veterans of America would recommend that authority and discretion to fully manage the direct and guaranteed loan portfolios be restored as soon as possible. This must be done by statute, to insulate VA insofar as possible from adverse and counterproductive meddling from those at OMB who wish the program to fail.

Third, The Veterans Administration must do a much better job of informing the individual veteran of his or her rights and responsibilities as a borrower under this program. This should include designation of Veterans Service Officers in every VA Regional Office who are trained in assisting veterans who are in danger of default. Obviously this has to be done in such a way that the veteran knows of their role from the outset, how to access this service, and feels that they are approachable (ie. his or her advocate) before an arrears situation deteriorates beyond redemption. We are dealing with whole persons here, and VA needs to recognize this and establish procedures tha address the "whole veteran".

Fourth, VVA would recommend that VA be enabled, in fact as well as in statute, to participate in "recasting" loans to prevent foreclosure for the many, as opposed to the current very select few. The VA, in the case of this type of refinancing, plays essentially the role of referee wherein the needs of the lender and the veteran would be met. It is in every party's interest to keep the veteran in vested possesion ot their home. In many situations, personnel should be brought into the case as a formal condition, whether those personnel be from readjustment counseling service, Family Services, or employment counseling.

Fifth, VVA believes that in order to successfully implement the concept of dealing with the "whole veteran", there has to be some easing of immediate pressure to move toward foreclosure. A short term mortgage assistance insurance program, administered by the VA, would be ideal in this regard.

Lastly, Vietnam Veterans of America has for years extolled the virtues of the State of California's "CAL-VET" program. Were progress on replicating this program in other states not precluded, for the moment, by action of the Congress, VVA believes similar programs would exist in many other states. The CAL-VET program enables veterans to purchase single family homes at an affordable rate of 8% on a fixed term thirty year mortgage. The proposal that a conceptually similar program be enacted on a national scale is in fact a proposal of great merit, and Vietnam Veterans of America would favor such a proposal.

In summary, Mr. Chairman, Vietnam Veterans of America greatly appreciates your staunch defense of the VA Home Loan Guaranty Program as a vital readjustment program. It is now time for continued bold leadership, seizing the initiative to put forth a comprehensive reform that will preserve in fact the original intent of the VA Home Loan Guaranty Program.

Thank you, Mr. Chairman, for allowing Vietnam Veterans of America to present our views here this morning.

## WRITTEN COMMITTEE QUESTIONS AND THEIR RESPONSE

### CHAIRMAN SHELBY TO VETERANS' ADMINISTRATION

*Question 1.* I would appreciate having data on pending foreclosures with a breakdown by state and age and suggestions, if any, to expedite foreclosures, as well as data on property inventory with a breakdown by state and age and suggestions, if any, to expedite sales.

Answer. The following two charts contain data by state on the number of portfolio loans pending foreclosure and the number of properties in inventory.

Our suggestion to expedite foreclosures would be to allow VA to use free-basis attorneys to handle judicial foreclosure of portfolio loans.

With regard to sales, we have been selling properties as quickly and as responsibly as we can utilizing new program changes introduced during 1984. During FY 83, FY 84 and FY 85 (projected), we sold or will have sold more properties than were on hand at the beginning of each FY. In FY 83 we had 17,164 properties on hand and sold 18,550 and in FY 84 we had 19,872 properties on hand and sold 22,144. We presently have 21,895 properties on hand and we project that 26,200 will be sold during FY 85. During the first 6 months of FY 85, we made property sales of $530 million. This compares with $403 in the first 6 months of FY 84. Based on this volume, we expect to sell over a billion dollars in property by the end of FY 85.

To explore additional ways to accelerate the sales of our properties, we have had discussions with the recently formed Task Force of the National Association of Realtors (NAR). The NAR Task Force has pledged its cooperation in expediting our property sales. As a first step, NAR will consider whether VA-owned properties can be entered in its Multiple Listing Service (MLS) in order to achieve wider marketing exposure. The assistance of the NAR, coupled with continued emphasis on program changes, will help us to accelerate the downward trend in our inventory during 1985.

PORTFOLIO LOANS PENDING FORECLOSURE—REFERRED TO DEPARTMENT OF JUSTICE AS OF MAR. 31, 1985

| | Number of months pending | | | | | |
|---|---|---|---|---|---|---|
| | 0 to 6 | 6 to 12 | 12 to 18 | 18 to 24 | Over 24 | Total |
| State: | | | | | | |
| Arizona | 0 | 1 | 0 | 0 | 1 | 2 |
| Arkansas | 20 | 11 | 5 | 1 | 1 | 38 |
| Connecticut | 0 | 0 | 1 | 0 | 0 | 1 |
| Florida | 81 | 48 | 77 | 31 | 115 | 352 |
| Illinois | 0 | 1 | 1 | 0 | 5 | 7 |
| Indiana | 9 | 8 | 0 | 0 | 0 | 17 |
| Kentucky | 19 | 6 | 10 | 2 | 7 | 44 |
| Louisiana | 11 | 11 | 15 | 6 | 3 | 46 |
| Maine | 4 | 1 | 1 | 0 | 0 | 6 |
| Massachusetts | 6 | 4 | 2 | 0 | 1 | 13 |
| Montana | 0 | 0 | 1 | 1 | 0 | 2 |
| Nebraska | 1 | 5 | 2 | 1 | 0 | 9 |
| New Jersey | 45 | 13 | 12 | 5 | 42 | 117 |
| New York | 13 | 10 | 13 | 7 | 46 | 89 |
| North Dakota | 3 | 0 | 0 | 0 | 1 | 4 |
| Ohio | 46 | 244 | 53 | 113 | 114 | 570 |
| Oklahoma | 58 | 40 | 12 | 16 | 5 | 131 |
| Pennsylvania | 0 | 0 | 0 | 1 | 0 | 1 |
| South Dakota | 1 | 0 | 2 | 0 | 0 | 3 |
| Utah | 0 | 0 | 0 | 0 | 1 | 1 |
| Vermont | 1 | 1 | 0 | 0 | 0 | 2 |
| Wisconsin | 20 | 18 | 4 | 11 | 6 | 59 |
| Puerto Rico | 204 | 10 | 1 | 2 | 5 | 222 |
| U.S. total | 542 | 432 | 212 | 197 | 353 | 1,736 |

## VA-ACQUIRED PROPERTIES

| | Properties on hand Mar. 31, 1985 | Average months in inventory [1] |
|---|---|---|
| State: | | |
| Alabama | 243 | 8.9 |
| Alaska | 18 | 8.1 |
| Arizona | 572 | 10.7 |
| Arkansas | 73 | 8.0 |
| California | 2,423 | 10.4 |
| Colorado | 379 | 8.0 |
| Connecticut | 51 | 13.2 |
| Delaware | 4 | 6.7 |
| District of Columbia | 33 | 8.6 |
| Florida | 498 | 5.4 |
| Georgia | 408 | 7.0 |
| Hawaii | 20 | 6.7 |
| Idaho | 119 | 10.8 |
| Illinois | 2,167 | 10.9 |
| Indiana | 1,146 | 12.2 |
| Iowa | 790 | 18.8 |
| Kansas | 443 | 12.6 |
| Kentucky | 159 | 9.2 |
| Louisiana | 250 | 11.9 |
| Maine | 38 | 11.3 |
| Maryland | 148 | 9.5 |
| Massachusetts | 10 | 4.0 |
| Michigan | 1,404 | 20.2 |
| Minnesota | 372 | 9.8 |
| Mississippi | 132 | 8.3 |
| Missouri | 258 | 14.2 |
| Montana | 140 | 13.5 |
| Nebraska | 140 | 10.2 |
| Nevada | 347 | 10.4 |
| New Hampshire | 5 | 7.8 |
| New Jersey | 537 | 6.2 |
| New Mexico | 21 | 6.8 |
| New York | 208 | 11.8 |
| North Carolina | 189 | 7.3 |
| North Dakota | 39 | 9.8 |
| Ohio | 1,536 | 10.1 |
| Oklahoma | 397 | 6.6 |
| Oregon | 181 | 16.6 |
| Pennsylvania | 573 | 9.6 |
| Rhode Island | 4 | 4.0 |
| South Carolina | 201 | 7.8 |
| South Dakota | 48 | 9.9 |
| Tennessee | 219 | 9.0 |
| Texas | 2,455 | 7.7 |
| Utah | 111 | 6.8 |
| Vermont | 6 | 7.8 |
| Virginia | 210 | 5.4 |
| Washington | 807 | 9.5 |
| West Virginia | 117 | 16.0 |
| Wisconsin | 571 | 15.4 |
| Wyoming | 175 | 8.0 |
| Puerto Rico | 121 | 14.9 |
| U.S. total | 21,316 | 10.7 |

---

[1] The figures shown represent the average time in inventory for those properties which have been sold fiscal year 1985 to date—through Mar. 31, 1985.

*Question 2.* At the March 5 hearing, we asked you to comment on the differences between the VA's and CBO's appropriation projections. What are the major differences and what steps are being taken to reconcile these differences?

Answer. The Congressional Budget Office estimates that obligations to the Loan Guaranty Revolving Fund will be $247.4 million higher than projected in the VA's FY 1986 budget submission. CBO estimates that these higher obligations are more than offset by additional collections of $494.2 from increased loan and property sales. Therefore, CBO projects $246.8 million in additional net revenue to the revolving fund.

The other major difference is that CBO estimates that the revolving fund will have an opening FY 1986 balance of $312.8 million compared with VA's projection of $85.6 million. The difference in additional revenue of $246.8 million plus the difference in the opening balance projection of $227.2 million total $474 million which exceeds the total appropriation request for $404.6 million for FY 1986. A copy of the VA analysis has been supplied to CBO. We hope the difference can be reconciled in the near future.

*Question 3.* In yesterday's Washington Post, the Secretary of HUD was reported to be preparing an appeal of an OMB Directive to stop collecting information about racial and ethnic characteristics of home mortgage loan applicants. What action is the Veterans Administration prepared to take?

Answer. The OMB Directive to cease collecting minority and female participation data on VA loan forms 26-1802a and 26-6705 is currently being discussed between the General Counsels of OMB and VA. We expect to reach a resolution of this question through these discussions in the near future.

---

### HON. CHRISTOPHER H. SMITH TO VETERANS' ADMINISTRATION

*Question 1.* We hear stories of delays in processing GI loans. Would you please discuss your processing standards and the extent to which they are being met by your field stations. Do you have any serious backlog in such processing?

Answer. Our timeliness standards in issuing Certificates of Reasonable Value (CRVs) are as follows:

Individual existing—85 percent within 15 days; 98 percent within 21 days.

Individual proposed—80 percent within 15 days; 95 percent within 21 days.

Our timeliness standards in processing GI loan applications are as follows:

Commitments for home loans—85 percent within 8 days; 98 percent within 15 days.

At present there are no serious backlogs in processing. As home buying activity increases during the spring and summer months, some minor backlogs can be expected to develop. Due to the cyclical nature of home buying, changes in volume are normal.

*Question 2.* Isn't it true mortgage rates are not really negotiated with borrowers, but are determined by competition between lending institutions?

Answer. Competition among lending institutions and the cost of funds to mortgage lenders determines the ultimate yield lenders must obtain on mortgage loans they make. Within the limits dictated by market forces, lenders are able to adjust the loan interest rate, and thus the monthly payment, through the charging of points. Borrowers, or sellers, are therefore able to negotiate over the payment of additional points in exchange for a lower loan interest rate.

*Question 3.* If the VA Insurance Trust were used for making direct VA loans, what would be the effect on insurance dividends? Are there legal questions involved?

Answer. At the present time there are eight GI life insurance programs, four of which no longer issue new policies. Each program is separate and is administered differently.

Dividends are payable to holders in four programs. No application is necessary as they are paid automatically on the anniversary date of the participating policy.

The manner in which each GI life insurance fund may be invested is strictly dictated by statute. The allowable options include investment in interest-bearing obligations of the United States, obligations guaranteed as to principal and interest by the United States, and bonds of the Federal farm-loan banks. Other administrative aspects of the various funds which are controlled by statute are interest rates and maturity dates.

Since the two components of the various funds are the premium payments and the investment income, the significant variable by which the dividend amount will be determined is the type of investment. Therefore, if insurance funds were used to make direct loans, the effect on insurance dividends clearly would depend upon how favorably the rate of return on home loans compared with the current authorized investment options.

Since the manner in which the funds may be invested is dictated statutorily, any change would have to be legislated by Congress. Another potential legal issue is that the funds are being held in trust for the policy holders and there is an inherent obligation to keep them relatively risk-free.

A further consideration involves the issue of liquidity. For example, the average age of policy holder in the National Service Life Insurance program is 61. It would be impractical to tie up NSLI funds in a 30-year obligation.

*Question 4.* Is there time and cost savings associated with the on-line access to GI loan records? What is being done to prevent misuse of or unauthorized access to loan records?

Answer. The feasibility study for this project identified time savings associated with reduction of folder pulls, elimination of research and mail time, on-line transaction processing and reduction of paper flow. The savings were estimated at about $2 million annually.

The security controls presently in place in the DVB Communications Network will be utilized. Each terminal user will be provided with a magnetic access card and a unique file pass word which will be required to access the on-line data base. Access and command authority will be limited and controlled individually by local management. Sensitive records will be assigned priority levels of security. Security logs and violation procedures currently in use by the network will be fully utilized.

*Question 5.* How are brokers kept notified about your foreclosed houses that are for sale? Please make specific inference to your practices in Los Angeles.

Answer. VA uses an open listing system under which appropriate geographic sales listings are sent to all sales brokers who have expressed an interest in participating in our sales program. These brokers are placed on a mailing list to receive not only sales listings but any other informational material concerning our sales program.

Our Los Angeles Regional Office has divided its jurisdictional area into seven separate geographic areas for the purpose of issuing sales listings. Brokers on the respective mailing lists received copies of initial listings, relistings, and revised listings on a weekly basis for the properties located in their specific areas. Additionally, at least once a month, brokers will receive copies of a consolidated listing showing all properties available for sale in the entire Los Angeles jurisdictional area. Brokers remain on the mailing list until they specifically request to be removed.

*Question 6.* Please give us the number of foreclosures since 1980. Please give the figure by years. Also, please give the number of foreclosed houses sold since 1980. Again, give the figure by years.

Answer. The following table contains the number of foreclosures, the number of properties acquired, and the number of properties sold by fiscal year since 1980.

| | Number of foreclosures [1] | Number of properties acquired [2] | Number of properties sold |
|---|---|---|---|
| Fiscal year: | | | |
| 1980 | 11,048 | 11,549 | 11,780 |
| 1981 | 13,017 | 13,326 | 10,645 |
| 1982 | 16,432 | 16,656 | 10,775 |
| 1983 | 22,508 | 21,411 | 18,590 |
| 1984 | 28,036 | 24,277 | 27,144 |

[1] Includes manufactured home loans.

[2] Includes terminations of vendee accounts.

*Question 7.* Discuss the merits of the proposals to "crash" sell a number of your houses to Vietnam veterans who would pay a lesser price then the one quoted in today's listing. These would be good credit risks who would probably not qualify for higher priced houses but who, by purchasing these houses, would get them off your inventory and thereby reduce your losses.

## FAVORABLE ASPECTS

Answer. Any procedure for selling homes to Vietnam veterans at prices less than other buyers would have to pay would clearly be a great benefit and advantage to Vietnam veterans.

Properties offered for sale at significant dicounts can be expected to be sold faster than similar properties without such a discount.

The more rapid sale of properties at discount would increase the flow of cash to the Loan Guaranty Revolving Fund and diminish the short-term need for appropriations.

### UNFAVORABLE ASPECTS

This could be seen as a "benefit" to Vietnam veterans not authorized by the Servicemen's Readjustment Act and not available to other veterans.

In our property sales, we have tried to get fair market value prices within a reasonable period of time to minimize the need for appropriations. Significant price reductions below market value would decrease the need for appropriations in the short run, but might increase the need for appropriations in the long run.

The Deficit Reduction Act of 1984 directed VA to base its decision on whether to acquire a foreclosed property on the fair market value (less certain expenses). A deliberate decision to resell acquired properties at a substantial discount from fair market value would be inconsistent with the Deficit Reduction Act and would undermine the financial determination on which VA based its decision to acquire.

The overall effect on property sales could be counterproductive if prospective purchasers were discouraged from bidding for VA-owned properties by the perception that Vietnam veterans would always receive preferential pricing treatment.

There could be some negative impact on the values of surrounding properties, some of which may be owned by other veterans (including other Vietnam veterans). For example, assume a VA-owned home listed for sale at $40,000 alongside a home purchased last year by another Vietnam veteran for $40,000, using the statutory loan guaranty benefit. From a human and equal-treatment perspective, it would be difficult to explain to the $40,000 homeowner-veteran why VA sold the equivalent house next door to another Vietnam veteran this year for only $30,000.

There would be a substantial incentive for fraud and abuse. The price dicount would be so attractive that other prospective purchasers would have a financial interest in using Vietnam veterans as "straw-buyers".

VA's holding cost (out-of-pocket expenses such as taxes, utilities and management fees, plus an estimated Treasury interest cost at 12 percent for the time in inventory) for the average property sold in FY 85 has amounted to 15 percent of the average sales price. While some argument can be made that selling properties faster to Vietnam veterans at substantial discounts would reduce VA's holding costs and losses, the maximum savings on holding costs would not exceed this 15 percent. In other words, the savings would justify only a 15 percent discount, and that amount would be achieved only if VA sold the property to the veteran on the first day of the holding period. If the veteran purchased the property after it had been owned by VA for 7 months (⅔ of the average holding time), then only a 5 percent discount could be justified on the basis of savings in holding costs.

○